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### **Anti-Leftism Key to Success in Reform, Open Policy**

93CM0261A Beijing ZHONGGUO QINGNIAN  
[CHINESE YOUTH] in Chinese No 2,  
1 Feb 93 pp 10-12

[Article by Liu Defu (0491 1795 4395): "The Key to Unshakableness for 100 Years Is Unshakable Anti-Leftism"—Also see "Article Urges Democratic Reform" published in 8 April 93 China DAILY REPORT (FBIS-CHI-93-066), pp 16-19]

[Text] One year ago when Comrade Deng Xiaoping made the scientific judgement and correct policy decision that "China should watch out for the right but focus on preventing the left," some people, in an effort to frighten others, warned: "Mistakes in opposing right and left deviations can cause the ship to capsize." Things have not developed, nor will they develop, in accordance with the subjective logic of these people. On the contrary, after it extricated itself for the second time from the yoke of the left, the tall ship of China has surmounted all difficulties and forged ahead. Chinese people are content, society is stable, and the economy is developing rapidly. Practice has proved and will continue to prove that as long as we are unshakable in our anti-leftist stand, reform and the open policy will be continued, the basic line will be upheld for 100 years, and there will be great hope for the cause of Chinese-style socialism.

### **The Process of Reform and Opening Up Is Nothing but a Process of Continuous Elimination of the Bondage of the Left**

The achievements of 14 years of reform and opening up were scored in the process of opposing and struggling against the influence of leftist ideology and ossified thinking.

The decision to carry out reform and opening up to the outside world was made to accompany the resolute struggle to eliminate leftist influence. After the smashing of the gang of four, all undertakings were waiting to be undertaken. Where did we start? The most important measure our party took was to lead and organize discussions on the issue that practice is the only criterion for judging truth, to smash the long-standing yoke of personality cult and the erroneous policy of "two whatevers," to reestablish the Marxist ideological line of emancipating the mind and seeking truth from facts. This later became the guide for all positive developments. The Third Plenary Session of the 11th CPC Central Committee resolutely abandoned the erroneous left policy of "regarding class struggle as the key link" which is unsuitable for socialist society, switched the focus of work of the state and party to economic construction, and made the great policy decision of implementing reform and the opening up policy.

The essence of this policy decision is to do away with rigidity and closedness, to carry out revolutionary changes in all systems that hinder the development of

productive forces, and to thoroughly dismantle all barriers that prevent us from accessing to the results of world civilization. After bringing order out of chaos in both ideological and political lines, our party created the new path of reform and opening to the outside world in regard to the issue of how China's socialism can get out of trouble and develop. Actually, our party managed to do so only after it eliminated leftist influence.

Reform and opening up are a process of eliminating the old and creating the new. For each step forward we have to first eliminate the interference and influence of the left. Reform started in rural areas. Since the cooperative transformation of agriculture, the masses of peasants and grassroots cadres asked on various occasions that production be contracted to the household level. But they were suppressed each time for "taking the road of capitalism." After the Third Plenary Session of the 11th CPC Central Committee, the masses of peasants in Anhui and other provinces took the lead in implementing the household production contract system. Those who were bound by leftist ideology considered this as "dividing up the field and practicing individual farming." They said "We worked hard for 30 years, now we are suddenly back to where we were before liberation." The party Central Committee summed up the practical experience of the masses, abolished the system of people's communes, implemented the system of household production contract responsibility system, and gave 800 million peasants power to make management decision regarding their land, thus solving a major institutional issue for the rural areas of socialist China and giving an impetus to across-the-board revitalization of the rural economy. Rural reform triggered all-round reform and construction undertakings. Reform spreading from rural to urban areas and the commodity economy developing in all aspects of society became an inevitable trend. But the ossified thinking that the commodity economy is incompatible with the socialist system of public ownership, and that any increase in market force indicates an increase in capitalist force was very stubborn, and seriously hindered the all-round implementation of the economic system reform. The Third Plenary Session of the 12th CPC Central Committee adopted the "Decision on the Reform of Economic System," overcame the traditional concept that sets the planned economy against the commodity economy, and affirmed that China's socialist economy is a planned commodity economy based on public ownership. At the same time, the party Central Committee also set forth the principle of regarding public ownership as the basis for developing a diversified economy and provided a correct theoretical guidance for the all-round reform of economic system. Reforms in science and technology, and education and political systems have also been put on the agenda on the basis of eliminating leftist ideas. A magnificent picture of all-round reform is taking shape.

Resisting and stopping leftist ideology from returning made it possible to carry out reform and opening up to

the outside world. After entering the 1990s, we witnessed the failure of reform in the Soviet Union and East Europe and China's domestic reform entered into the stage of storming heavily fortified points where a deeper-level of contradictions had to be resolved. As a result, some people began to have new ossified thinkings. They even started to have doubts about the correctness of reform and opening up. A handful of people even wanted to go back to the stage before the Cultural Revolution. They considered reform and opening up as importing and developing capitalism and interpreted various practical forms of ownership introduced a few years ago such as share-holding, leasing, and contract systems as an "underwater movement" of privatization, thus creating enormous obstacles to reform. Under the steering and navigation of Comrade Deng Xiaoping, the party Central Committee made a correct historical decision: insisting that the basic line remain unchanged. The party Central Committee adopted a series of major plans to continue reform and opening up and enabled the cause of reform and opening up to be upheld and developed continuously under the complex and difficult conditions at home and abroad.

Looking back in history, it is not difficult for us to see that China's reform and open policy were able to advance successfully in the past 14 years precisely because we eliminated the bondage and interference of the left. To continue reform and opening up in the future, we must further emancipate our minds and watch out for, prevent, and break away from the interference and influence of the left.

**"China Should Watch Out for the Right, but It Should Focus Mainly on Preventing the Left." This Is Not Directed Against Any Particular Time or Thing. It Should Penetrate the Entire Process of Reform and Is Applicable for the Entire Initial Stage of Socialism.**

Socialist reform is a profound revolution, and an exploring and creating process, which is bound to encounter various kinds of resistance. The interference and influence of erroneous ideas from both the left and the right will penetrate the whole process of reform and opening up. The resistance of reform and opening up comes mainly from the habits of the left because they are so deep-rooted. Because of this, that "China should watch out for the right, but it should focus mainly on preventing the left" is not directed against any particular time and thing. Instead, it is applicable for the entire process of reform and even for the entire initial stage of socialism. It is a profound summary of the history of struggle of our party in the past several decades. It is aimed especially at reality. It also serves as a forecast on history and will play a far-reaching role of guidance. This was the basis for the 14th CPC Congress to include this thesis of Comrade Deng Xiaoping into the general program of the revised party constitution and made it become the basic law of the party.

A review of past experiences and lessons shows that, as a political tendency, leftist ideas have interfered with the implementation of the party's basic line mainly on the following eight basic issues:

On the issue of the road of development of socialism, they stick to individual concrete conclusions of authors of Marxist classics, confuse basic systems with specific systems, and mistake various models of socialism formed under special historical conditions for socialism itself. They have ossified thinking, promote superstitions, and oppose proceeding from domestic reality to choose a new model of construction.

On the issue of the stage of development of socialism, they are lost in daydreams. They are anxious to transcend and reject what is inevitable and reasonable in the initial period of socialism.

On the issue of the fundamental tasks of socialism, they put the development of productive force in second place. In the central place they put the so-called "revolution of the superstructure" and "revolution of ideological sphere," which are separated from and even hinder the development of productive forces. They use politics to influence and replace everything.

On the issue of the motive force of socialism, they negate that reform is the direct motivation for the development of socialism. Instead, they consider class struggle as the basic motive force that controls everything and vertical administrative orders as the only means to push society forward. They use the abstract principle of taking the road of "socialism" or "capitalism" as the criterion for judging all rights and wrongs.

On the issue of external conditions for socialist construction, they fail to see changes in the living environment of socialism and oppose studying, borrowing, and using all achievements of advanced civilization created under capitalist conditions to develop ourselves. They consider opening to the outside world as importing the capitalist system.

On the issue of political insurance for socialist construction, they fail to see the contemporary meaning of the four basic principles. Instead of adhering to socialism, they adhere to certain models of socialism. Instead of upholding the people's democratic dictatorship, they want only dictatorship and not democracy. They adhere to but refuse to improve the party's leadership. Under the slogan of adhering to Marxism, they have changed Marxism into a rigid and ossified dogma.

On the issue of strategies for socialist construction, they oppose having some people become rich first and then bring along others. They think it is not socialism unless everybody suffers together. They think having some people or some areas become rich first is polarization. On the issue of construction speed, they either are anxious for success or seek stability and fear confusion.

On the issue of leading and relying on the power of socialism, they consider intellectuals as dissidents with the risk of "peaceful evolution." They are quick to get involved in "reorganizing class contingents," draw lines among people and things, treat revolutionary comrades as enemies, and so on.

We can imagine that had we let leftist tendencies go unchecked on these basic issues, it would be impossible to have the general reform and open policies of the party and a series of coordinating principles and policies, to adhere to the reform and open policies for 14 years and to make so many achievements, and to continue to follow this correct road from now on. The crux of the problem is that the reform and open policy we have been implementing is the self-improvement and regeneration of socialism, which defines internally the nature of socialism. Conditions for the birth and development of the reform and open policy and the nature and main aspects of the contradictions tackled by the policy (bringing about fundamental changes to economic, political, and cultural systems that hinder the development of productive forces) determine that the main resistance of the reform and open policy comes from superstitious dogmas formed under long-standing leftist concepts and systems and leftist tendencies which stick to conventions and seek no improvement. Because of this, focusing mainly on the left must be a long-term basic principle.

#### **Whether or Not the Party's Line Can Last 100 Years Depends on Our Ability To Prevent and Oppose the Left**

We are at a critical point of history. We need to establish a new economic system in its preliminary form in the 1990s. Then by the early 2020s of the next century, namely the centennial of the founding of the party, we should form a complete set of more mature and finalized systems in all fields. By the mid-21st century, namely the centennial of the founding of the PRC, we should basically fulfill socialist modernization. This is a very grand and yet extremely arduous task. The decisive condition for fulfilling this task is unswervingly adhering to the basic line of the party. Whether or not the party's basic line can last 100 years depends to a large degree on our ability to prevent and eliminate the interference of the left and right, especially the interference of the left.

How do we increase our ability to prevent the left?

The most important thing is to intensify the study of basic Marxist theory, especially Comrade Deng Xiaoping's theory on building Chinese-style socialism. Deng Xiaoping's theory is the latest achievement in combining Marxism and China's reality. It is living Marxism. It has provided the first set of systematic and preliminary answers to a series of basic questions, such as how to build, consolidate, and develop socialism in an economically and culturally backward nation like China. It uses new ideas and concepts to carry out and develop Marxism. As long as we study and master Comrade Deng Xiaoping's theory, concept, and

method, we will be able to effectively avoid major theoretical errors. In addition, we must strive to study modern scientific and cultural knowhows. "Deep water carries heavy weight and deep soil grows lush plants." Rich and diversified knowledge can help us broaden our horizon, enhance our discerning ability, and overcome our subjective desire and one-sidedness.

Second, only by going deep into the realities of life can the correct theory which we have mastered generate practical power. Only by allowing our understanding to be tested and corrected in practice can we hear the voice of reality accurately and in a timely manner and ensure that our understanding continues to adapt to the new situation of development and change. Away from reality, it is impossible to gain a correct understanding of the law of development of socialism. Under this condition, we are bound to commit the mistake of subjectivism. Or we will commit the mistake of empiricism by following the old methods and experiences which we are used to, but are no longer applicable under the new conditions. Or due to ossified thinking and deviation from reality, we will commit the mistake of dogmatism by dogmatizing certain ideas and theories of authors of Marxist classics and by making the experiences of foreign countries absolute. Under current conditions, empiricism and dogmatism are manifested as leftist tendencies or structured similarly as the left. To prevent leftist errors and keep in step with the objective reality, we must get deeply involved in practice, plunge into practical activities such as building the system of socialist market economy, and revise old understandings continuously as practice develops.

Lastly, also most importantly, we need to march in step with the people. The party's basic line and the reform and open policy represent the most fundamental interest of the broad masses of people and have been wholeheartedly welcomed and supported by them. The broad masses of people are unhappy about and resist the interference of the leftist stuff on the party's basic line and the reform and open policy. Some of our comrades have failed to effectively resist and struggle against leftist stuff, not because they have the understanding problem, but because they are bothered by selfish motives. Leftism has a revolutionary color. To leftists it is a stepping-stone to success, and to persons who originally were not leftists it is a protective talisman. So this actually is a question of whether or not to place individual or people's interest above everything else. We should have the understanding and a little bit of the spirit that "if it concerns the life and death of our country, we should not avoid it because of our own misfortune." When it comes to things concerning the basic interest of the people and major issues concerning the long-term security of the state, we should give up consideration for personal gains and losses, and be brave in adhering to the truth for the interest of the people.

## Transformation of Ideology Under Market Economy

93CM0261B Beijing ZHONGGUO QINGNIAN  
[CHINESE YOUTH] in Chinese No 1, 1 Jan 93 p 1

[Article: "Let Young Lives Have Young Brains—On the Change of Concepts Under the Market Economy"]

[Text] The 14th CPC National Congress solemnly announced to the whole world: "The purpose of China's economic reform is to establish a system of socialist market economy."

The objective has been affirmed, and the channel is being opened. Targeting the market economy is almost like carrying out a revolution of economic system, which in itself is a major breakthrough in the theory of Chinese-style socialism, and a great liberation of ideas and concepts. With regard to the market economy which has always been denounced as "capitalism" in the abstract "socialist-or-capitalist" debate, and which everyone has been avoiding, theoretical obstacles have been removed, but the task of ideological change has yet been fulfilled. Although young lives are full of vigor, the vestiges of the old system and the lingering of outdated concepts can still overload our brains. We have young lives, but we do not necessarily have young brains.

Let us take some examples.

For instance, how do we look at "getting rich quick?" Those who get rich quick manage to accumulate enormous wealth within a short period of time. When we see those "rich people" who hold "cordless phones," stay in big hotels, and ride limousines, we may think of the word "upstarts." How can honest labor bring so much money? They must have made illegal money in disregard of their conscience. Indeed when egalitarianism was prevalent, the appearance of "rich people" was unimaginable. Now things have changed. Those scientific and technological inventors who have a future in the market economy, those winners who are good at seizing gaps in the market and dare to combat the winds and waves during market competition, those who try their best to win great honors for our motherland may become millionaires overnight. What is unreasonable about this judged from the viewpoint of a market economy? Such quick wealth is actually reasonable reward of special contribution. Not only should we refrain from criticizing it, we should also encourage it. The difference between reasonable gains generated under the condition of the market economy happens to be one of the motive forces pushing the development of the market economy. Of course, those who make illicit money in disregard of their conscience are still looked down upon, but they are not regular products of the standard market economy. They are both upstarts, but with different causes, their value judgements are different. It looks like that there is indeed a need for us to reexamine the content of upstarts.

By the same token, how do we look at adventurers? Indeed we have affirmed to a great extent the significance of adventure in social progress. In the struggle with nature,

such as swimming across the Chang Jiang and scaling steep cliff, we have been fairly adventurous. But under the previous economic condition, it was difficult for us to take any risk or display our talents in economic life. Now things are different. Markets undergo myriad changes in the twinkling of an eye, and the contrast between ups and downs is extremely great. If we know how to harness the energy generated by the surge and fall of waves, we will be able to ride the waves easily. It is hard for those who are indecisive to accomplish anything big. Once a correct decision is made, we should go all out to carry it out. But this is easier said than done. A correct decision also means a scientific forecast. Even with a scientific forecast, risks are unavoidable due to various unpredictable factors in future development. Because of this, without the spirit of an adventurer, we can never navigate in the unpredictable economic ocean. Adventure implies the possibility of failure. Failed adventurers should be credited too because without such failure, they would not have discovered a road to success for themselves and for others. Don't we also respect these adventurers?

We still encourage getting rich through hard work. Although the Chinese are known for their hard work, China has not entered the rank of developed countries because of this. If we take another look at this, we probably will find out that what we did before was often working hard like bees. We had repetition of simple products. We had quantitative expansion, but rarely quality change and variety update. Because when we ignore the market, our hard work becomes blind stupidity. Under the new condition, we still need hard work. But such hard work is full of market foresight, knowledge, and wisdom. It is intelligent hard work in line with the development of market. Not all hard work can make us rich.

Even the meaning of "speculation" became controversial after the development of the stock market. Where there is stock market, there is speculation. Hence the problem of concepts. If stock market speculation is an acceptable behavior of stock market development, how should we look at speculation in economic life? What is right and what is wrong probably cannot be answered with a simple yes or no.

It looks like it is time for us to reexamine a series of ideas and concepts that are based on the planned economy which resists the market economy. Such an examination is not to negate the past in an abstract manner. Instead, it is to test the past with new practice. This is because theory is grey but the tree of life is green forever.

The ideas and concepts of the superstructure always has a great negative impact on the economic system. Although we have young lives, but our brains may still be tainted with the residues of old ideas. When we enthusiastically welcome the birth of a market economic system, we should also enthusiastically welcome the change of ideas and concepts. This will ensure that our young lives will have young brains forever.

## NATIONAL AFFAIRS, POLICY

### Potential GATT Impact on State Enterprises

93CE0454A Beijing GUOJI JINGMAO XIAOXI  
[INTERNATIONAL TRADE NEWS] in Chinese  
23 Mar 93 p 2

[Article by Chen Zhanping (7115 0594 1627) and Liu Luwu (0491 7627 2976): "Problems Faced by Enterprises After Joining the GATT and How to Deal With Them"]

[Text] In a note delivered in July 1986, China requested that its status as a signatory to the General Agreement on Tariffs and Trade [GATT] be restored. After several years of efforts, China hopefully will rejoin the GATT in the near future. "GATT membership" will not only provide us with good opportunities for economic development, but also bring serious challenges to our enterprises.

#### Problems Enterprises Will Face Under GATT

1. *The present enterprise system is not suitable for "GATT membership."* Reform of the enterprise system began several years ago. Some enterprises have since overcome the existing problems and embarked on the road toward vigorous development. Others, however, have not done so well after the "labor pains" in the course of change. Judging by their current conditions, most enterprises want to adapt themselves through changes in the system to the requirements of a socialist market economy, but despite the changes that have been made, some unsound practices remain to hamper their production and operations. The long-standing system of planned economy has made the enterprises dependent on state plans. There is a strong call for the delegation of more power to enterprises, but when power is delegated by the state, the enterprises are caught psychologically unprepared and without solid measures to deal effectively with the contradictions caused by the changed mechanism, particularly those in the deeper levels. For a variety of reasons, some enterprises with increased power are still unable to engage in direct dialogue with foreign firms, and their products still have to be exported through foreign-trade channels, which means structurally they still cannot measure up to the requirements of the international market.

2. *The industrial structure is not suited to the needs after joining the GATT.* Although the state has tried to readjust the industrial structure by administrative and economic means, the fact remains that China's industrial structure is still far from meeting the requirements of the international market. The main manifestations are: 1. The industrial structure still retains vestiges of the past command economy and cannot shake off the shackles of the state's mandatory plans. For financial reasons, some enterprises, though not in keeping with state industrial policies and poor in economic performance, are protected by local authorities and difficult to readjust. 2. There is a lack of efficiency and momentum for development based on large-scale production. The efficiency

of scale is shown in the overall performance of an enterprise in production and management, and is directly related to products, the quality of workers and staff members, machinery, equipment, and so forth. At present, the economic performance of Chinese enterprises is in most cases very low, and it is difficult for them to achieve the efficiency of scale and compete with foreign enterprises in the international market. Moreover, because of their impaired "blood-making" ability, most enterprises are deep in debt and do not have the strong financial resources needed to support production and operations. 3. Products are of low quality, high price, and not competitive. These are the common problems of enterprises. Their products cannot compete in foreign markets whether in designs, variety, or in quality.

3. *Enterprises lack effective ways to promote sales of their products.* The operational concept that "good products sell themselves" still influences the thinking of some business leaders. Their product marketing channels are narrow, limited to sending samples to prospective buyers, and they are unable to promote sales of their products at international trade fairs as foreign enterprises do. As a result, many quality products of advanced international standards have lost opportunities to enter the international market because of ineffective sales-promotion methods.

4. *Many economic departments and enterprises have little understanding of international practices and universally applicable laws and regulations. As a result, our enterprises often find themselves in a passive position in international dealings, which does not work to the advantage of their production and operations.*

#### Measures Enterprises Should Adopt Under GATT

Once China's position as a signatory to the GATT is restored, it will enjoy the benefit of reduced tariff and nontariff trade barriers in other countries. At the same time, it will also have to appropriately open up its own markets and can no longer use high tariffs to protect its own backward enterprises. Therefore, it is a matter of great urgency that relevant steps be taken as soon as possible to help China's enterprises measure up to the requirements of the GATT.

1. *Enterprises should change their operational mechanisms as quickly as possible to meet the requirements of a market economy.* First of all, it is necessary to establish the concept of great markets. After China rejoins the GATT, enterprises will face a unified domestic market and a great international market, which have no regional boundaries and are commodity markets with goods from all directions and levels. In this kind of market, sticking to old ideas will not do, nor will falling behind the developing situation. It is, therefore, necessary for enterprises to change their concepts, meet changes by changing themselves with a completely new way of

thinking and an open mind, and adapt themselves to the operational rules of markets and the common practices in various countries of the world. Next, it is necessary to carry out internal reform and vigorously promote the share system. Quite a number of local enterprises have already adopted the share system, and some have even issued stocks to the public. Even though some of these share enterprises are not quite up to standard, they are nevertheless trying to move in the direction of a market economy. From a development point of view, the share system will inevitably replace the contract system. It is the continuation and in-depth development of the contract system. Therefore, enterprises which have not yet adopted a share system should actively create conditions to have one set up according to standard. Those which already have a share system should also improve and develop it step by step. Moreover, a system of management by objective with efficiency as its focus should be established. Everything should be focused on efficiency, and measures should be developed around this focus. It is therefore necessary to really bring the competition and risk mechanisms into the enterprises, and on this basis, adopt realistic and feasible measures to insure that the efficiency objectives will be achieved.

*2. The industrial structure should be readjusted according to market demands.* It is necessary to update and readjust our own products and varieties, or develop new ones, in good time according to international and domestic market information. Those unwanted by the market must be eliminated. We must have a clear view of the market for our products and the prospect of its future development to readjust our industrial structure according to demands and prevent unmarketable goods from being produced or piling up.

*3. To make products more competitive, investment in science and technology must be increased both by the enterprises themselves and by the state. The enterprises should increase the proportion of funds earmarked for high-tech development and increase investment in science and technology.* Priority in granting bank loans should be given to the following: 1. They should support enterprises to carry out technological renovations, speed up technological progress, gradually eliminate obsolete equipment and products, increase the enterprises' overall scientific and technological capabilities, and vigorously develop scientifically and technologically advanced enterprises. 2. They should support key industries in developing major products, and help enterprises replace or improve their equipment completely or partially to maintain the prestige of certain famous-brand, quality, and special products, especially products of high added values, high technological content, high export and foreign-exchange-earning power, and high market shares. At the same time, they should help enterprises to produce according to general national and international standards.

*4. It is necessary to speed up the changing of government functions to create a sound external environment for the enterprises to pass the GATT test smoothly.* Judging by

the present conditions, a system with "less government and more services" will be more effective in helping enterprises do a good job in production. The government should turn its macro management of the market from direct regulation and control to indirect regulation and control, help nurture and perfect the market system, establish a sound market mechanism, and boldly allow the enterprises to "open" new markets. At the same time, it should also reform the relevant policies, laws, and regulations to meet GATT requirements and standardize enterprise behavior.

## PROVINCIAL

### Sichuan Policy To Promote Collective Economy

93CE0468A Chengdu SICHUAN JINGJI RIBAO  
in Chinese 10 Mar 93 p 1

[Article by Liu Min: "Provincial Government Formulated Several Policies on Accelerating Development of Collective Economy"]

[Text] The collective economy has become an important component of our province's national economy. On 6 March, the provincial government issued a circular, pointing out that it will continue reform and quicken the pace of developing collective economy, and formulated several policies on accelerating the development of collective economy.

The provincial government urged that the development of collective economy must follow the province's general plan for the national economy and society, industrial policy, and the principle of efficiency of the market demands, and must continually readjust and optimize the ownership structure, industrial structure, product structure, technological structure, and enterprise organizational structure. The economies of counties and districts should insist on placing collective economy at the center of attention so that from now on, except for a small number of special trades and state key (backbone) projects, all newly launched medium-sized and small projects (including newly constructed enterprises) must, in principle, adopt the form of collective ownership. The collective economy must put the tertiary industry in the leading position. Meanwhile, an export-oriented economy should be developed, and both domestic and foreign markets should be fully used.

The provincial government emphasized: Collective enterprises must accelerate the transformation of operation mechanisms. During the Eighth Five-Year Plan, a shareholding cooperation system should be carried out in large areas after experiments have been conducted. In future, establishment of new enterprises under the shareholding cooperation system, and transformation of old enterprises that have adopted the shareholding cooperation system, according to the principle of administration, examination and approval by different administrative levels, will be examined and approved by the Collective Economic Affairs Offices at the provincial,



city (prefectural and autonomous prefectural), and county (city and district) levels, together with relevant departments at the same level. They will carry out the work in accordance with the unified methods and policies stated by the province.

The provincial government decided to continue to relax tax policies. The reform of tax rate reduction and after-tax loan payment should be conducted among collective enterprises on a trial basis. All experimental enterprises should pursue the practice of after-tax loan payment. Entirely individually run enterprises, the enterprises under the system of ownership by the whole people, which are transforming operating mechanism, and the collective enterprises set up by the party and the government body to settle surplus personnel will be given one year of turnover tax exemption and two years of income tax exemption after they have reached a certain proportion and got the approval from tax institutions. Enterprises that belong to the tertiary industry can reduce income tax by half for three years.

The policy also stipulated: Specialized banks and urban and rural credit cooperatives should treat collective enterprises and enterprises that are owned by the whole people equally without discrimination in loans. They should simplify the procedures for the former industrial and commercial registration in future. It is no longer necessary for collective enterprises to be examined and approved by the administration departments; and units with legal persons and necessary conditions and individuals are allowed to establish collective enterprises without administration departments and limited liability companies. Collective enterprises' fixed assets investment and technological transformation projects should be placed in the province's plan in terms of planning and overall consideration.

Enterprises that have the authority to import and export should enjoy the same treatment as foreign trade enterprises do in access to foreign quotas, export licenses, and export drawbacks. Upon the approval of the Provincial Foreign Economic Relations and Trade Commission or the Foreign Affairs Office of the provincial government, certain quotas of personnel going abroad for several occasions can be given to key (backbone) collective enterprises practicing the shareholding cooperation system so that they can be free from going through documental approval procedures in a certain time. In addition, a certain number of long-term business passports can also be given to directors (general managers) and professional personnel.

Collective enterprises have the authority to make decisions independently on time, requirements, methods, and quantity for worker recruitment according to the needs of production operation and economic capacity. After recruitment is done, they are required to report them to labor departments for the record. Within the limits of the total wages they retained as stipulated by the state, the collective enterprises have the authority to

readjust wage standard, wage scale, and wage relationship between personnel of different types.

We must encourage and support units and individuals who have conditions to set up, on volunteer basis, nongovernmental science and technology entities in the forms such as collective ownership, sole proprietorship, joint venture, and shareholding cooperation, and those engaged in tertiary industry. We must quickly build the economic cooperation funds at the provincial, city, and county levels. To further probe a new thinking line on the development of the province's collective economy and reform, we must actively and steadily carry out experimental work. The provincial government has agreed, in principles, to have Peiling, Hechuan, Langzhong City, and Chengdu's Qingyang District, and Chongqing's Jiangbei District listed as the province's collective economic comprehensive development experimental zones.

### Shanghai Implements New Enterprise Regulations

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[Article: "Measures for Carrying Out the Transformation of the Operating Mechanism of Shanghai Municipal Industrial Enterprises Under Ownership of the Whole People"]

[Text] Shanghai Municipal People's Government Order No 31.

*Measures for Carrying Out the Transformation of the Operating Mechanism of Shanghai Municipal Industrial Enterprises Under Ownership of the Whole People* are hereby issued to take effect from the date of issue. Mayor Huang Ju [7806 5468], 1 February 1993

### Section 1. General Regulations

Article 1. To spur the entry into markets of industrial enterprises (hereinafter abbreviated enterprises) under ownership of the whole people, increase enterprise vitality, and improve the economic returns of enterprises, these measures have been drawn up on the basis of "Regulations for the Transformation of Operating Mechanisms of Industrial Enterprises Under Ownership of the Whole People" (hereinafter abbreviated to "regulations") as they apply to conditions in this city.

Article 2. The goals to be attained in the transformation of enterprise operating mechanisms are as follows: To enable enterprises to hasten their response to market demand, to become production and operating units responsible for their own operating decisions according to law, responsible for their own profits and losses, responsible for their own development, and responsible for limiting themselves and becoming independent enterprise corporate persons enjoying civil rights and bearing civil responsibilities.

Article 3. Transformation of enterprise operating mechanisms must abide by the following principles:

- (1) Adherence to the party's basic line.
- (2) Adherence to the separation of government administration and enterprise management, ensuring state ownership of enterprise assets, protection and augmentation of enterprise assets, and exercise of enterprise operating authority.
- (3) Maintenance of the interrelationship among responsibilities, rights, and benefits, correctly handling the relationship between the state and enterprises and between enterprises and staff members and workers, practice of the principle of distribution according to labor, and relating staff member and worker income from labor to the fruits of labor.
- (4) Use of the role of the CPC grassroots organization as the political nucleus in the enterprise, maintaining and perfecting the plant director (or manager) responsibility system, and relying wholeheartedly on the working class.
- (5) Perseverance in intensifying enterprise reform and in advancing technical progress in the enterprise in conjunction with the improvement of enterprise management.
- (6) Perseverance in the building of socialist spiritual civilization simultaneous with the building of socialist material civilization for the building of a moral, cultured, and disciplined corps of staff members and workers.

Article 4. In connection with the transformation of enterprise operating mechanisms, and in accordance with the need for good macroeconomic management and microeconomic decontrol, government must transform its functions, reform its enterprise management methods, nurture and develop the market system, establish and perfect the social security system, and carry out coordinated reforms in the fields of planning, investment, public finance, taxation, finance and banking, pricing, materials, business, foreign trade, personnel, and wages.

Article 5. The party organization, the trade union, and the Communist Youth League in enterprises, as well as all staff members and workers, are to perform tasks for the realization of the goal of transforming enterprises' operating mechanisms. All sectors of society are to create an environment for the transformation of enterprises' operating conditions.

## Section 2. Enterprise Operating Rights

Article 6. Enterprise operating rights refers to enterprise rights to possess, use, and dispose of enterprise assets that the state has entrusted to its administration and control (hereinafter abbreviated to enterprise assets) according to law.

Article 7. Enterprises are to exercise operating rights in accordance with state-prescribed assets operating methods. State assets operating methods refers to the

standard responsibilities, rights, and benefits relationship between the state and enterprises. They are the responsibility system reforms whereby enterprises administer and manage state-owned assets.

Enterprises are to continue to maintain and perfect the enterprise contract management responsibility system and practice the lease management responsibility system.

Enterprises are to try out the separation of taxes and profits, unify tax rates, relieve enterprise after-tax burdens, and institute after-tax repayment of loans. They are to create conditions for trying out the share system, and they are to emulate the policies that apply to the three kinds of partially or wholly foreign-owned enterprises in production and operation. Enterprises may seek partners for cooperation as needed, cooperating with foreign traders and operating with joint ventures.

Article 8. Enterprises are to enjoy production and operation decision making authority.

Enterprises have the authority to make production and operating decisions based on state macroeconomic plan guidance and market requirements to produce products and supply services to society.

All enterprise adjustments of production and operations within their industry or that transcend industries that are consistent with state enterprise policy orientation may be taken directly to the industrial and commercial administration and management authorities for completion of registration change procedures. After receiving a report of enterprise readjustment of production and operations, the industrial and commercial administration and management authorities are to complete change in registration procedures within 10 days.

Enterprises may themselves draw up production and operating plans within the purview of their production and operation, and file a report with the enterprise authorities in charge for purposes of the record. The state has the right to issue command-style plans to enterprises when necessary. In the implementation of command-style plans, enterprises have the right to require the enterprise levying the requirement to sign a contract. They may also require the signing of a state goods order contract with a government-designated unit. Should the enterprise levying the requirement or the government-designated unit not sign a contract, the enterprise may refuse to arrange for production.

Municipal planning units may not issue command-style plans other than the command-style plans that they forward on behalf of the state. No other municipal government departments may issue or add to command-style plans.

Article 9. Enterprises enjoy the right to set prices for products and services.

Except for industrial consumer goods used in daily life and a small number of means of production whose prices are directly controlled by the state and the municipal people's government, and that are listed in the catalogue

of products that municipal pricing units draw up and issue, all prices are decontrolled and may be set by enterprises themselves. Enterprises have the authority to set prices for labor services they provide in processing, making repairs, and technical cooperation.

In cases where the law contains other provisions regarding the pricing of products and labor services, those provisions are to apply.

**Article 10. Enterprises enjoy the right to sell products.**

Enterprises have the right to sell anywhere in the country all products they produce other than command-style plan products. No government agency may bar or limit their sales, or otherwise discriminate against them.

Enterprises are to sell in accordance with plan provisions the products they produce in accordance with command-style plans. Should the enterprise levying the requirement or a government-designated unit not fulfill the contract, an enterprise has the right to halt production, and it may appeal to the government or government department in charge requesting coordination and solution. It may also sue in a people's court in accordance with provisions of the contract concerned to fix responsibility for contract violation on the enterprise levying the requirement or the government-designated unit. The enterprise may also itself sell products already produced. The enterprise may itself sell all excess production once command-style plan production tasks have been completed.

When they produce products that the state stipulates are to be purchased by designated units, enterprises have the right to require that a contract be signed with the government-designated purchasing unit. Should the purchasing unit fail to purchase in accordance with the contract, an enterprise may file an appeal with the government or the government unit concerned requesting coordination and resolution. It may also sue in a people's court in accordance with the provisions of the contract concerned to fix responsibility for contract violation on the purchasing unit. If the purchasing unit fails to purchase products already produced in accordance with the contract, an enterprise may sell them itself.

Products to which other provisions of the law apply or whose sale in markets the state expressly prohibits are excepted.

**Article 11. Enterprises enjoy the right to purchase goods.**

Enterprises have the right to request the supply of materials for command-style plans and to sign contracts with production enterprises or other suppliers of goods. Suppliers must supply goods at the quality, in the amounts, at the price, and at the times specified in contracts.

For goods that an enterprise needs for other than command-style plans, it may itself choose the supplier, the form of supply, and the kinds and amounts to be

supplied, itself signing goods ordering contracts. It may also itself decide on goods allocation.

Enterprises have the right to refuse to implement any unit's use of any method to designate for the enterprise a supply unit or supply channel other than for command style plans.

**Article 12. Enterprises enjoy import-export rights.**

Enterprises may themselves select a foreign trade enterprise from anywhere in the country to act on their behalf for imports and exports, and they have the right to take part in negotiations with foreign traders. They may select and employ an enterprise from anywhere in the country that has foreign economic cooperation operating rights to undertake projects outside the country, to conduct technical cooperation, or to provide other labor services. They may themselves select and commission a foreign trade enterprise to import equipment and materials for their own use.

All enterprises engaged in the import-export business may independently establish spot foreign exchange accounts, make final settlements of foreign trade matters, and use retained foreign exchange and conduct foreign exchange adjustments. No government agency or unit may transfer or hold back an enterprise's retained foreign exchange. The renminbi due enterprises after payment of foreign exchange is to be repaid to the enterprise at once.

Conditions permitting, enterprises may apply to the foreign economic relations and trade authorities for import-export authority. Enterprises that have import-export authority enjoy the same benefits as foreign trade enterprises regarding import-export quotas and licenses.

As required, municipal external foreign economic relations and trade authorities may issue import and export quotas in conjunction with municipal industrial authorities on the basis of net foreign exchange earnings and foreign exchange conversion costs through the calling for tenders.

Enterprises having import-export authority may, as business requires, establish a name list of business personnel who regularly travel out of and into the country for the enterprise, sending it to the foreign economic relations and trade authorities for approval, a single approval to be valid for multiple entries and exits each year. Subject to State Council authorization, enterprises that have export-import authority may themselves examine and approve the travel of personnel outside the country or may invite personnel from abroad to come to China to conduct business activities, notifying the foreign affairs authorities for direct handling of exit and entry procedures. Other enterprises that must send personnel abroad or invite personnel from outside the country to come to China to engage in business activities require approval from the municipal foreign economic relations and trade

authorities and they must notify the foreign affairs authorities for handling of exit and entry formalities.

**Article 13.** Enterprises enjoy investment decision making authority.

In accordance with applicable provisions of the law and State Council regulations, enterprises have the right to use retained funds, materials, land use rights, industrial equity rights, and unpatented technology for investment in enterprises and institutions in all sectors and industries in the country, buying and holding shares in other enterprises. Following approval of the government authorities concerned, enterprises may invest outside the country or operate enterprises inside the country. Enterprises may use their retained funds and funds that they have raised themselves for productive construction that meets state industrial policy and the city development plan requirements. They may themselves plan the construction and make arrangements for the necessary land, water, electricity, gas, and raw materials needed for production. The enterprise itself may decide to initiate the project, reporting to the government authorities concerned for purposes of the record. The municipal industrial authorities should issue the documents approving the enterprises' initiation of the project on the basis of a certificate of funds verification from a registered accounting office or auditing office. Following completion according to law of the land control, urban planning, urban construction, and environmental protection unit procedures, enterprises may themselves decide the beginning of construction.

Enterprises engaged in productive construction who require bank credit may apply for bank approval. If the issuance of bonds to the public is required, a report is to be filed with the municipal planning authorities for examination and approval in conjunction with a municipal branch of the People's Bank and the municipal industrial authorities. If the issuance of stock to the public is required, examination and approval procedures are to be handled in accordance with national regulations. If loans from abroad are required, the examination and approval of municipal planning authorities and foreign exchange control authorities is to be sought.

Enterprises that abide by state industrial policy in the use of retained profits for productive construction projects or to augment working capital may, following enterprise application and tax authority approval, obtain a return to the enterprise for further reinvestment of 40 percent of the income taxes they have paid.

Enterprises may list and amortize actual product development costs commensurate with their economic returns and their ability to bear expense. In accordance with the state uniformly set assets depreciation regulations concerned, enterprises have the right to select a specific depreciation method to determine the degree of accelerated depreciation.

**Article 14.** Enterprises enjoy the right to control retained funds.

So long as they can ensure that enterprise assets will retain their value and increase in value, enterprises have the right themselves to decide the percentage and uses of all the funds that hold their retained profits, notifying the government authority in charge of the enterprise as well as the public finance and tax authorities as a matter of record.

Enterprises may use their production development fund for the purchase of fixed assets, for technical transformation, for the development of new products, and to augment their working capital. They may also combine their depreciation funds with other funds of a productive nature for technical transformation or for productive investment.

Enterprises have the right to refuse any department's or unit's allocation or transfer without compensation of enterprise-retained funds, or efforts to forced the enterprise to use its depreciation funds to augment profit payments to the state. In cases where State Council regulations specially provide otherwise, those provisions are to apply.

**Article 15.** Enterprises enjoy the right to dispose of assets.

Enterprises may themselves decide to lease, mortgage, or transfer for payment ordinary fixed assets as production and operations warrant. They may also lease key pieces of equipment, whole plants, or major structures, and subject to approval of the government authorities in charge, they may also mortgage them or transfer them for compensation except in cases where the law or administrative regulations otherwise provide.

Income that enterprises derive from the disposal of productive assets must be used in entirety for the renovation of equipment and for technical transformation.

When enterprises plan to dispose of fixed assets, the assets are to be appraised in accordance with "State-Owned Assets Evaluation and Control Measures."

**Article 16.** Enterprises enjoy the right to form partnerships and to merge.

Enterprises have the right to form partnerships with other enterprises and institutions in the following ways:

- (1) To form new economic entities with other enterprises and institutions. Following industrial and commercial administrative control department approval and registration, those enterprises bearing social responsibilities and possessing juridical person status may be accredited as juridical persons.
- (2) To operate in common with other enterprises and institutions, all parties to the partnership bearing social responsibilities according to the percentage of their investment or provisions of their agreement.

- (3) To establish a partnership agreement with other enterprises and institutions, setting forth the rights and obligations of each party, all parties to the partnership operating independently, and all bearing separate social responsibilities.

Enterprises may merge with other enterprises in accordance with the principle of voluntary participation and compensation, notifying the government authorities in charge as a matter of record. The enterprise being merged into another is to file request for approval with the authorities in charge of enterprises, and notify the state-owned assets control authorities as a matter of record.

Article 17. Enterprises enjoy the right to assign labor.

Shanghai enterprises have an all personnel labor contract system.

Enterprises enjoy rights and bear responsibilities in accordance with the provisions of national laws, and national rules and regulations, as well as the provisions of enterprise regulations, the labor contract signed by all staff members and workers, and labor contracts between the enterprise and staff members and workers.

A specimen of the enterprise labor contract is to be approved by labor authorities.

Enterprises may themselves decide the times, conditions, methods, and numbers of workers to be hired in accordance with the principle of orientation toward society, open recruitment, full testing, and selection of the finest for employment. All workers that enterprises recruit from the city and town population are not subject to administrative zoning limitations within the city and towns. Following approval of the labor authorities, enterprises may recruit labor from rural villages or from other provinces and municipalities.

In cases where the law or State Council regulations apply to enterprises' employment of retired or active duty members of the armed forces, members of minority nationalities, women, or the handicapped, those regulations are to apply.

Graduates of schools that the enterprise is affiliated with or has commissioned for training are to be employed by the enterprise. Graduates of other institutions of higher education, secondary technical schools, or skilled worker training schools, the enterprise may employ as needs require.

Following satisfactory testing, personnel released from prison upon completion of their terms may be employed like other persons awaiting employment. Personnel who retained their staff member or worker employment status during the period of their incarceration are to be employed by their original enterprise.

Enterprises have the authority to form rational labor groups through open testing and evaluation, choosing the best for positions within the limits of personnel

quotas. Enterprises may place surplus personnel through the development of tertiary industries, intra-plant transfers for training, early retirements, and other means. Government departments concerned may use inter-plant exchanges and employment agencies to help units in their employee transfer task. Surplus personnel may also find employment themselves.

Enterprises have the right, within the provisions of the law and regulations and enterprise rules, to cancel labor contracts, and to dismiss or fire staff members and workers. Unemployment insurance agencies are to provide unemployment insurance to staff members and workers whose contracts have been cancelled, or who have been dismissed or fired, and government labor authorities are to provide them opportunity for re-employment. When such personnel are members of collective households, the local public security and grain authorities are to permit them to complete procedures for changing their household registration and the location that supplies them their grain ration, and city and town street offices are to accept them.

Enterprises must strictly enforce a safe production system for diligent protection of staff member and worker health and safety.

Article 18. Enterprises enjoy personnel management authority.

Enterprises may themselves exercise personnel management authority in accordance with the principles of personnel having both ability and political integrity, and appointments being based on merit, and the requirement that responsibilities and benefits go hand in hand.

Enterprises may institute hiring systems and testing systems for managerial and technical personnel. Discharged or unhired managerial personnel and technical personnel may be placed in production or service positions, and production and service personnel found to qualify through testing may be hired for managerial and technical positions. Subject to approval of the government authorities concerned, enterprises may hire foreign managerial and technical personnel.

Enterprises have the right to set up within their enterprise effective special technical positions as actual requirements warrant. Personnel determined to possess special technical qualifications in accordance with uniform state-set evaluations may be assigned to positions and receive the benefits that enterprises themselves decide.

Mid-level administrative and managerial personnel in enterprises are to be appointed and dismissed (engaged and relieved) by the plant manager. Deputy plant-level administrative and managerial personnel are to be appointed or dismissed (engaged and relieved) through plant application to the government department in charge of the enterprise, or if so empowered by the government department in charge of the enterprise or the municipal industrial department in charge, they may

be appointed or dismissed (engaged or relieved) by the plant manager, a memorandum for the record filed with the empowering authorities.

**Article 19.** Enterprises have the right to apportion wages.

Enterprise wages, bonuses, subsidies, and other income in the nature of wages comprise the total wage bill, which is to be listed as a cost. Where a government payment standard exists, it is to be followed; where no government standard exists, the enterprise itself may decide payment on the basis of its economic returns.

Enterprises have the right to set wage and bonus levels on the basis of staff member and worker ability, the amount of work performed, the degree of responsibility the work entails, work conditions, and the actual contribution made. They have the right to decide the form of wage distribution within the enterprise, and to determine the conditions, the times and the methods to be used for general increases or decreases in staff member and worker wages.

So long as wage increases are related to an increase in economic returns and an increase in the labor productivity rate, enterprises may themselves decide the amount of wage increase, themselves preparing a wage plan and filing a copy with the labor authorities for purposes of the record.

Enterprises have the right to give a substantial bonus to scientific and technical personnel, sales personnel, and other staff members and workers who make outstanding contributions.

Unless the state otherwise prescribes, the enterprise has the right to refuse any department's or unit's request that the enterprise issue a bonus or general wage increase to staff members and workers.

**Article 20.** Enterprises have the right to set up internal organs.

Enterprises have the right to set up, change, and abolish internal organs, and to determine enterprise staffing. Enterprises have the right to refuse a request from any department or unit to set up a counterpart organization, and to set staffing or a scale of salaries and benefits. In cases where the law prescribes otherwise and special state regulations exist, those provisions are to be followed. Work for which no special organ has been set up is to be the responsibility of the personnel.

The mechanical application of government administrative levels to enterprise and managerial personnel is to be changed; no enterprise may prescribe administrative levels.

**Article 21.** Enterprises enjoy the right to refuse assessments.

Enterprises have the right to refuse any department's or unit's assessment of manpower, material, or financial resources. Enterprises may lodge a complaint, report, or

reveal assessment efforts to audit units or other government organs concerned requesting that action be taken.

Unless the law and the State Council otherwise provide, enterprises have the right to decide whether they will accept inspection, comparative evaluation, evaluation to select the best, evaluation to determine whether they meet a standard, upgrading, appraisal, checks, and testing from authorities and units concerned.

**Article 22.** Enterprise operating rights are protected by the law. No department or unit may interfere with or infringe upon them.

Except for the licenses that the law, rules and regulations, and the municipal people's government regulations explicitly provide may be issued, all other licenses and similar certificates that a municipal government organ itself decides to issue are invalid.

Enterprises have the right to complain about or report to the people's government, or to the government organs concerned, illegal actions that interfere with and infringe an enterprise's operating rights, or it may file suit according to law in a people's court.

### **Section 3. Enterprise Responsibility for Their Own Profits and Losses**

**Article 23.** Enterprise responsibility for their own profits and losses means the responsibilities that enterprises bear and the rights and benefits they enjoy from the production and operating activities they pursue using the assets that the state has entrusted to their administration and management.

**Article 24.** Enterprises bear civil responsibility for the assets that the state has entrusted to their administration and management.

Enterprises bear civil responsibility for the operating activities undertaken as juridical persons by their legally designated representatives and other working personnel.

Plant managers bear direct administrative responsibility for enterprise profits and losses. In accordance with the enterprise internal economic responsibility system, enterprises also bear commensurate responsibility for the enterprise's profits and losses.

**Article 25.** Enterprises must establish distribution limiting mechanisms and supervisory mechanisms.

Enterprises must decide increase or decrease in staff member and worker earnings on the basis of increase or decrease in the enterprise's economic returns. The total wage bill of money-losing enterprises may not be more than the total wage bill set by the municipal authorities in charge.

Enterprises are to request that their staff member and worker congresses examine and approve enterprise wage adjustment plans and bonus distribution plans. Enterprises' wage and bonus distributions are to be supervised

by the government organs concerned. Conditions permitting, they may be examined and approved by a registered and specially government-certified accounting office or auditing office.

Enterprise violations of the provisions of this article that falsely increase profits and falsely report profits when losses have actually occurred as a means of increasing wages and bonuses are to be stopped at once and corrected by the government authorities in charge. Unwarranted increased staff member and worker earnings are to be deducted and returned over a period of time from the date of discovery. In serious cases, administrative responsibility is to be fixed on the plant and other directly responsible personnel, and commensurate punishments meted out.

Article 26. The income of the plant and other plant-level leaders is to be linked to the enterprise's economic returns. The authorities in charge of the plant may use an overall estimate of enterprise profits and how well the enterprise has protected and increased the value of assets in conjunction with the enterprise's mean level to determine the income level of the plant and other plant-level leaders.

When the new manager of a money-losing enterprises realizes the goal of changing losses into gains within a prescribed period of time, higher level authorities should give the plant or plant-level leaders a corresponding bonus, the bonus to be paid by the department deciding the bonus.

Article 27. Enterprises practicing the contract management responsibility system who have not fulfilled their profit payment quotas are to use the enterprise's retained profits and risk collateral to make up for the payments.

Enterprises practicing the lease management responsibility system in which the leasing party is unable to meet the overall operating goals within the period of time that the lease operating contract prescribes, or is in arrears in the payment of rent are to make up payments out of the enterprise risk collateral, anticipated living expense funds, or the annual earnings of the lessors, any shortfall to be made up out of the assets pledged as security by the lessor and guarantors.

Article 28. When enterprises incur losses of a policy nature resulting from fixed prices of products it produced for government-prescribed social welfare goals, or in fulfillment of command-style production plans, the price administration authorities should make readjustments or decontrol product prices to solve the problem. If prices cannot be readjusted or decontrolled, following public fund authorities' examination and approval, a commensurate subsidy or other form of compensation should be given. In figuring wages to be paid on the basis of earnings, such losses are to be regarded as taxes and profits paid. If an enterprise continues to show a loss after the foregoing actions are taken, the losses are to be regarded as losses attributable to management.

Article 29. When an enterprise creates losses attributable to maladministration and mismanagement, the plant and other plant-level leaders, as well as staff members and workers are to bear responsibility commensurate with the extent of their responsibility.

Enterprises that are losing money because of mismanagement are to halt the payment of bonuses and may not increase wages. In cases of serious losses, not only are bonuses to be halted, but the wages of the plant manager, other plant-level leaders, and staff members and workers are to be lowered by different percentages commensurate with their degree of responsibility. Individual enterprise leadership teams may also be reconstituted as necessary; and plant-level leaders may be dismissed, lowered in grade, or lowered in rank.

Enterprise mismanagement losses amounting to 50 percent or more of the enterprise's total assets are deemed to be serious losses.

Enterprise losses that accumulated for a long time before enactment of the "regulations" are to be separately handled according to applicable State Council regulations after an inventory of assets and a check of funds.

Article 30. Enterprises must rigorously enforce national fiscal, taxation, and state-owned assets management laws, rules, and regulations, build internal auditing systems, conduct regular assets checks and audits, make sure that accounts agree with physical inventory, that they reflect the enterprise's operating results, and that no false increases in profits or misrepresentation of losses as profits has been perpetrated so as to ensure that the value of enterprise assets is protected and increased.

Enterprises must set up in conformity with applicable national regulations assets responsibility and profit and loss checking systems, draw up annual fiscal accounting reports and tables, and file them with the government organs concerned for examination and approval. Conditions permitting, a registered accounting office or auditing office should conduct an examination after which a report is filed with the government organs concerned for examination and verification.

Enterprises must accurately figure costs, withhold sufficient depreciation, and augment working capital in accordance with applicable state regulations. When no withholdings or insufficient withholdings for depreciation, and undercalculation of costs or charging costs without posting them to accounts results in a false increase in profits or the misrepresentation of losses as profits, the authorities concerned are to direct the enterprise to use its retained funds to make up the shortfall.

Enterprises' depreciation funds to be used for productive purposes, their new product development fund, and income received from the disposal of productive fixed assets may not be used for the payment of wages and bonuses, or to increase collective welfare benefits.



#### Section 4. Enterprise Change and Termination

Article 31. Enterprises may change their product makeup or organizational structure by a change to other lines of production, a halt in production for reorganization, merger, takeover, separation, dissolution, and bankruptcy, as well as by contracting and leasing to bring about a rational allocation of resources and a survival of the fittest enterprises.

Whenever an enterprise change involves cancellation of juridical person status and the transfer of operating rights, before the change is carried out, a registered accounting office or auditing office should conduct a certification of all of the enterprise's financial records, including its assets balance sheet, its profits statement, and its liquidation report (including its revenues and expenditures statement for the liquidation period).

Article 32. When an enterprise's leading products clog inventories because they are not in line with national industrial policy or lack markets, the enterprise should change its production lines. To make greater economic returns, enterprises may themselves take the initiative in changing production on the basis of market forecasts and as their own circumstances permit.

Article 33. Enterprises whose losses are serious may themselves apply for a halt in production to reorganize; or government authorities may also direct a halt in production for reorganization. A halt in production for reorganization should not exceed one year in most cases.

Enterprises that halt production to reorganize should draw up production halt and reorganization plans that include mostly the following: Purpose of the halt in production for organization and plans; actions to be taken to change the organizational structure and the product mix; actions to be taken to improve production and operations; actions to be taken to alter the structure and personnel; actions to be taken to turn losses into profits; and actions to repay indebtedness.

Enterprises that voluntarily halt production to reorganize may reorganize following government authorities approval of their production halt and reorganization plan. When enterprises are directed to halt production to reorganize, a government-appointed legal representative of the enterprise is to organize the preparation of a plan for halting production to be carried out following approval of the government authorities in charge.

During the period of production halt for reorganization, effective actions must be taken to protect the enterprise assets. No one may steal, destroy, defraud, divide, conceal, or transfer without compensation enterprise assets.

Article 34. During the period of halt in production for reorganization, public finance authorities should permit a temporary halt in the payment of contracted profits; banks should permit an extension of the period for paying loan interest; and the enterprise should halt the issuance of bonuses. Government authorities must help

enterprises solve real difficulties, and re-establish operating methods as enterprise circumstances warrant following the halt in production for reorganization.

Article 35. Enterprise mergers may be proposed by either party, notification filed with the government or government authorities in charge for approval. Alternatively, the government or government authorities in charge may decide on merger.

Merger of enterprises under ownership of the whole people may be carried out by transferring assets without compensation. When an enterprise under ownership of the whole people merges with a collectively owned enterprises, if there is no change in the character of the original state-owned assets, returns from investment and the increase in value of state-owned assets that remain a part of state-owned assets should be listed independently in accounts.

Merger plans may be proposed by government authorities in charge or enterprises. When a merger agreement is reached following full coordination by all parties to the merger with support from the government authorities in charge, the indebtedness of the original enterprise is to be borne by the merged enterprise.

Article 36. An enterprise may itself decide to take over another enterprise. The liabilities of the enterprise that is taken over are to be borne by the combined enterprise. The combined enterprise may conduct full discussions with creditors to come to an agreement for repayment of indebtedness over a period of time, or for reduction or exemption from indebtedness. When an enterprise takeover benefits the development of this municipality's key industries and key products, the municipal industrial authorities, together with municipal fiscal and taxation units, may consider the reduction for a fixed period of time of the combined enterprise's payment of contracted profit quotas; and banks may suspend interest payments on the former debts of the combined enterprise. When the enterprise taken over becomes a tertiary industry, following approval of the municipal industrial authorities in charge and the bank, interest payments may be suspended for two years, and half interest paid for three years from the date of opening of business.

Article 37. Enterprises may split up following approval of the government or the government authorities in charge. When enterprises split, all parties to the split are to sign a separation agreement that sets for the division of assets, creditors rights, and liabilities.

Depending on their production and operating situation, an enterprise may use the divided up plant, workshops, research and other plant components to set up a new enterprise that accounts independently, is responsible for its own profits and losses, and enjoys the status of a juridical person.

Article 38. When an enterprise halts production to reorganize but remains unable to attain the goal of turning around losses, and it is also unable to merge, as



well as when it should terminate for other reasons, so long as the liquidation of its debts can be assured, it may dissolve according to law at the behest of the government department in charge and with the approval of either the municipal people's government or the State Council department in charge. Liquidation of an enterprise that is to be dissolved is to be conducted by liquidation units set up at the direction of the government unit in charge.

The equipment of the dissolved enterprise may be sold in the market; its production materials and products may be auctioned; and its land and structure are to be handled in accordance with applicable transfer procedures. In addition to using returns from the foregoing for the payment of wages owing to the enterprise's staff members and workers, labor insurance payments, enterprise taxes owing, and the liquidation of indebtedness, the remainder may be used by the department in charge to change the enterprise structure, or it may be accepted or taken over by a state assets control unit.

Article 39. Enterprise liabilities are to be liquidated through the use of retained funds. If the retained funds are insufficient to liquidate indebtedness, the enterprise's assets may be mortgaged according to law to ensure payment of indebtedness.

Enterprises unable to pay indebtedness that meet legally prescribed conditions for declaring bankruptcy should declare bankruptcy according to law. Should the government deem an enterprise not eligible for bankruptcy, it should provide it financial assistance or take other action to help the enterprise liquidate its indebtedness.

Article 40. After an enterprise declares bankruptcy, other enterprises may reach an agreement with the bankrupt enterprise's liquidation unit to take over the enterprise, agreeing as well to take over the enterprise's court-stipulated liabilities, and accepting the bankrupt enterprise's assets. It may also enjoy the benefits accorded merged enterprises that Article 36 of these measures provide.

Article 41. Change or termination of an enterprise is to be according to provisions of the law, and rules and regulations. It must be ratified and registered by an industrial and commercial administrative unit, and the change of equity rights or cancellation of registration must be accomplished with the state-owned assets authorities in charge.

Article 42. The staff and workers of enterprises that the government has decided to dissolve become the placement responsibility of the government authorities in charge.

When an enterprise goes bankrupt, its staff and workers are to be placed in accordance with applicable provisions of the law and rules and regulations, or staff and workers are to be placed in accordance with an agreement reached between the enterprise taking over and the bankrupt enterprise. Staff and workers may also seek employment themselves.

When an enterprise is merged, staff and workers are to be placed by the post-merger enterprise or the enterprise that takes over the enterprise.

Independently accounting tertiary enterprises set up for the placement of surplus staff and workers are to be exempted from income tax for two years and pay half of the income tax for three years from the date they begin operation.

### Section 5. Relationship Between Enterprises and Government

Article 43. In accordance with the principle of separation of government administration and enterprise management, government is to exercise coordination, supervision, and control over enterprises according to law, and provide services to enterprises.

Article 44. The State Council is to exercise enterprise assets ownership authority on behalf of the state over enterprises whose assets are owned by the whole people, i.e., state-owned.

Enterprise assets include state assets resulting from all forms of investment in the enterprise and returns from that investment, as well as other assets that the law and state-owned assets control administrative regulations deem to belong to the whole people and that are under administration and control of an enterprise.

Article 45. The municipal government and all departments concerned exercise the following functions for the purpose of ensuring ownership rights to enterprise assets:

- (1) Checking of criteria for the protection of value and increase in value of enterprise assets, checking, auditing, and supervising the status of increase and decrease in enterprise assets and liabilities.
- (2) Determining the form, percentage, or quota for the division of returns from assets between the state and an enterprise in accordance with applicable regulations of the State Council and Shanghai Municipality.
- (3) Making decisions and approving productive enterprise construction projects according to applicable State Council provisions, investment decided by enterprises themselves in accordance with Article 13 of this code excepted.
- (4) Making decisions about or approving the form of operation of enterprise assets, and about the establishment, merger, separation, termination, auctioning, examination, and approval of enterprise share system pilot projects, as well as approval of enterprise proposals to be taken over by another enterprise, or application to go bankrupt.
- (5) Examination and approval in accordance with applicable State Council regulations of enterprise scrapping, writing off, or disposal of assets, and the mortgaging or transfer for payment of key pieces of equipment, whole plants, or major structures, and organization of the liquidation and taking over the assets of abolished and disbanded enterprises.

- (6) Deciding and approving, in accordance with legally prescribed conditions and procedures, the appointment and dismissal, and the reward and punishment of enterprise plant managers.
- (7) Drawing up enterprise assets control regulations and methods, and supervising and inspecting their enforcement.
- (8) Maintaining enterprises' exercise of operating rights according to law, ensuring no interference with enterprises' production and operation; and assisting enterprises in solving real difficulties.

Article 46. Municipal government departments concerned are to do all possible to foster and improve the market system so as to make use of the regulatory role of markets by doing the following:

- (1) Draw up a municipal economic and social development strategy and plans, and an industrial policy; control overall balance; and plan and adjust the pattern of industry.
- (2) Break down separations and blockades between areas and sectors as a market economy requires to establish and improve a unified nationwide markets that compete equally and that are fully regulated.
- (3) Do overall planning, coordination and building of means of production markets, labor markets, financial markets, technology markets, information markets and enterprise equity rights transfer markets in accordance with the national economic development master plan and layout to promote the fostering and perfection of the market system.
- (4) Regularly publish a catalogue of industries, projects and products whose development is encouraged, permitted, limited, and prohibited to guide enterprise production and operation.
- (5) Issue market information to improve market control and halt operations in violation of the law and improper competition.

Article 47. The labor, health care, and insurance sectors should take specific actions to build and improve the social security system as follows:

- (1) Establish and perfect an old-age insurance system, implementing a system that combines basic old-age insurance, supplementary enterprise old-age insurance, and staff member and worker individually savings old-age insurance.
- (2) Establish and perfect a staff member and worker unemployment insurance system that enables staff members and workers to obtain a certain amount of unemployment insurance funds for a certain period of time during the period of their unemployment to ensure that their basic needs are met.
- (3) Establish and perfect an insurance system that includes medical treatment insurance, work injury insurance, and child-bearing insurance.

Article 48. All municipal departments concerned are to do the following to provide social services to enterprises:

- (1) Develop and improve public facilities and public welfare facilities to reduce enterprises' social burdens.
- (2) Establish and develop social services organizations, including legal offices, accounting offices, auditing offices, employment referral offices, and property appraisal and information offices.
- (3) Improve the labor employment service system to train the unemployed to help them become re-employed.
- (4) Amplify the labor disputes arbitration system for prompt and proper handling of labor disputes to protect the legal rights and interests of enterprises and staff members and workers.
- (5) Coordinate relations between enterprises and other units to support enterprise's normal production and operating order.

#### Section 6. Legal Responsibilities

Article 49. Should government organs concerned violate the "regulations" and these measures, exceeding or abusing their control authority in issuing command-style plans and forcing enterprises to carry them out, enterprises have the right to refuse, and they may report the matter to the municipal planning authorities in charge, the municipal planning authorities ordering correction.

Article 50. Should government organs concerned violate the "regulations" and these measures to interfere in enterprises' investment decision making authority, or commit major mistakes in the examination and approval of enterprise investment projects, enterprises may report the matter to the municipal industrial authorities in charge, and the municipal industrial authorities ordering correction.

Article 51. Should government organs concerned violate the "regulations" and these measures to blockade, restrict, or take other prejudicial actions in violation of enterprises right to purchase or sell goods, enterprises may report the matter to the municipal industrial authorities in charge, and the municipal industrial authorities ordering correction.

Article 52. Should government organs concerned violate the "regulations" and these measures to interfere in or restrict enterprises right to set prices of goods and labor services, enterprises may report the matter to the municipal pricing authorities, the municipal pricing authorities ordering correction.

Article 53. Should government organs concerned violate the "regulations" and these measures to limit or restrain enterprises right to import and export, or indiscriminately transfer, garnish, and divert the foreign exchange that enterprises retain for their own use, enterprise may report the matter to the municipal industrial authorities for handling.

Article 54. Should government organs concerned violate the "regulations" and these measures to hold back or transfer without compensation funds that enterprises retain, or interfere with enterprises' right to allocate

assets, enterprises may report the matter to the municipal fiscal authorities or to the state assets control authorities, the municipal fiscal authorities or state assets control authorities ordering correction.

Article 55. Should government organs concerned violate the "regulations" and these measures to force enterprises to issue bonuses or general wage increases to staff members and workers, or interfere with enterprises hiring, dismissal, or firing of staff members and workers, or the abrogation of contracts, enterprise may report the matter to the municipal labor authorities, and the municipal labor authorities ordering correction.

Article 56. Should government organs concerned violate the "regulations" and these measures to appoint or dismiss a plant manager by other than legally prescribed procedures and conditions, or interfere with plant managers exercise of their authority to appoint and dismiss enterprise administrators and managers, enterprises may report the matter to a higher level of the government organ concerned, the higher authority handling the matter in combination with personnel and labor authorities.

Article 57. Should government organs concerned violate the "regulations" and these measures to force enterprises to set up counterpart organizations, set staffing requirements and pay and benefits for different grades, as well as violate the law and State Council regulations to conduct inspections, comparative evaluations, evaluations to select the best, evaluations to determine whether standards have been met, upgrading, appraisal, checks, and testing, enterprises have the right to oppose, and they may report the matter to the municipal industrial authorities concerned, and the municipal industrial authorities ordering correction.

Article 58. Should government organs concerned violate the "regulations" and these measures to illegally require that enterprises provide manpower, material, and financial resources, or retaliate against an enterprise for refusal to pay an assessment, enterprises may report the matter to higher levels in the government organ concerned, the higher authority in the organ concerned ordering correction. Enterprises may also bring administrative suit in a people's court according to law against any government organ concerned that claims performance of duties in violation of the law.

Article 59. Should government organs concerned violate the "regulations" and these measures to obstruct or force enterprises to readjust their organizational structure by other than legally prescribed procedures and conditions, enterprises may report the matter to the municipal industrial authorities, the municipal industrial authorities ordering correction.

Article 60. Should government organs illegally supervise, examine, or regulate enterprises or otherwise illegally interfere with enterprises operating rights to infringe enterprise's legal rights and benefits, enterprises may report the matter to a higher level of the authority

concerned or to another authority, the higher authority or the other authority ordering correction.

Article 61. Should actions in violation of the law of a government organ concerned cause losses for an enterprises, depending on seriousness, that organ or a higher level agency may administratively punish the personnel in charge or those directly responsible. When a crime has been committed, criminal responsibility may be fixed according to law by a judicial organ.

When an enterprise deems government organs concerned to have infringed its operating decision making authority as prescribed by law and regulations, it may bring suit in a people's court according to law.

Article 62. In the exercise of all examination and approval authority, the government must spell out concrete examination and approval procedures, examination and approval time limits, and examination and approval conditions, and discharge its functions in accordance with prescribed procedures, time limits, and conditions.

In the process of discharging its examination and approval authority, should additional pertinent documents or data be required from an enterprise, it should make a single request for them.

Should government authorities in charge refuse to issue or not reply to an application to a government unit for issuance of a permit or license that meets legal requirements, the enterprise may file administrative suit in a people's court according to law.

Article 63. Should an enterprise violate provisions of the "regulations" in any of the following ways, the government organ concerned should order correction. Depending on seriousness, it may fix administrative responsibility and fine the plant manager, other plant-level leaders, and those directly responsible, and it may administratively punish the enterprise in accordance with applicable law and regulations. If a crime has been committed, it may fix criminal responsibility according to law through a judicial organ:

- (1) Execution of command-style plans other than in accordance with regulations, or not abiding by economic contracts, failing to repay loans for a long period of time.
- (2) Unauthorized raising of prices of goods for which the state directly sets prices.
- (3) Performing construction project examination and procedures other than according to regulations, initiating a project and beginning construction without authority.
- (4) Wrong decisions that result in a construction project being unable to go into production as scheduled or no market existing for its products and no return made on investment once it does go into production with consequent loss of enterprise property.
- (5) Mindless borrowing without ability to repay resulting in a loss of enterprise property.

- (6) Unauthorized disposal of key pieces of enterprise equipment, whole plants, or major structures without prior approval causing a loss of enterprise property.
- (7) Abuse of labor assignment authority, personnel management authority, and wage and bonus distribution authority, thereby infringing the legal rights and interests of staff members and workers.
- (8) Violation of financial regulations, not withholding or not withholding sufficient depreciation funds, under reporting costs or charging them off without posting them to accounts, thereby creating a false increase in enterprise profits or false gains.
- (9) Use of productive depreciation funds, the new product development fund, or money obtained from the disposal of productive fixed assets for wages and bonuses, or to increase collective welfare disbursements.
- (10) Losses resulting from poor control or the use of illegal means of disposing of enterprise assets while changing or terminating an enterprise.
- (11) Inept administration and management that results in enterprise losses or bankruptcy.
- (12) Other violations of the "regulations" and the provisions of these measures that abuse operating authority.

Article 64. Enterprises may report to the local public security authority for handling all actions that prevent the plant manager and managers at all levels from the discharge of their functions according to law or that disturb order in an enterprise that result in inability to produce, operate, and work normally. Upon receipt of such a report, the public security organ is to act at once according to law.

Should a public security organ refuse to perform its duty or not perform it promptly, the enterprise may bring administrative suit against the public security organ according to law.

Actions that prevent a plant manager and managers at all levels from the discharge of their duties according to law, or that disturb order in an enterprise may, if they are serious and constitute a crime, be criminal punished according to law by a judicial organ.

Article 65. Enterprises are to establish and perfect enterprise work regulations in accordance with the provisions of the law and regulations for strict operation of plants and for the maintenance of their own legal rights and interests according to law.

#### Section 7. Annex

Article 66. The principles of these measures apply to other enterprises under ownership of the whole people in the city.

Article 67. Should regulations that the city has previously published and other documents of a regulatory nature conflict with these measures, these measures are to be regarded as the standard.

Article 68. All municipal government departments concerned should put into effect specific associated measures based on these measures.

Article 69. Interpretation of these measures is the responsibility of the Shanghai Municipal Economic System Reform Office in conjunction with the Shanghai Municipal Economic Committee, and the Shanghai Municipal People's Government Legal System Office, and they are to be put into effect by the Shanghai Municipal Economic Committee.

Article 70. These measures become effective on the day of publication.

## FINANCE, BANKING

### State Council Internal Document on Tax Evasion

93CE0400A Hong Kong CHENG MING  
[CONTENDING] in Chinese No 2, 1 Feb 93 pp 40-41

[Article by Shu Si: "New Move To Ameliorate Social Imbalance—Chinese Communist Internal Document Demands Stricter Tax Control"]

[Text] According to a conservative estimate, the total loss of tax revenue in China exceeds 100 billion yuan each year. Signs of tax evasion and tax dodge are everywhere in the state's economic life. The Chinese Communist leaders are determined to use administrative means to ameliorate social imbalance created by "unfair distribution of income in society."

In an investigation report to the Chinese Communist leaders in November 1992, the Chinese Communist State Administration of Taxation said that according to a conservative estimate, the tax revenue loss in China exceeds 100 billion yuan each year. Signs of tax evasion and tax dodge are everywhere in the state's economic life. There are tax evasion and tax dodge activities of varying degrees in more than 50 percent of state-owned enterprises, 60 percent of the individual establishments and 80 percent of individual and private enterprises and among 95 percent of those who should pay personal income regulatory tax.

According to an analysis in this report, the deficit of the central budget on China's mainland remains high in recent years, and there is a trend of continuous increase. One of the major reasons for this is the serious tax revenue loss which is considered a main source of state revenues.

This investigation report has attracted the attention of the Chinese Communist leadership. Recently the Chinese Communist State Council made public a document, entitled: "Strictly Control Taxation, Reform Tax System, Resolutely Administer Taxation in Accordance With Law" calling for efforts to direct the spearhead of

strengthening tax control first at nonstate-owned enterprises and individuals with high income so as to ameliorate the social imbalance created by "unfair distribution of income in society."

#### **Direct Spearhead at Nonpublic Owned Enterprises First**

This document points out that following the implementation of the "Regulations on Change of Business Operational Mechanism of Industrial Enterprises Owned by Whole People," more enterprises have become market-oriented. On the issue of state-owned enterprises paying taxes plus a part of profits to the state, the central authorities are going to release more documents to keep up with the new situation. The NPC Standing Committee is drawing up some supportive policies and trying its best to further improve the policies and relevant laws in this connection by 1993. Right now the primary task of the tax authorities at all levels is to administer taxation in accordance with existing state policies and laws and strengthen tax control in dealing with Chinese-foreign joint ventures, cooperative and exclusively foreign-owned enterprises, private enterprises (including pseudo-collective enterprises with "red caps"), individual enterprises and other nonpublic owned economic entities, and in enforcing personal income regulation. Various phenomena, statistics and simulated figures indicate that as long as we truly pay full attention to and do a good job in strengthening tax control over nonpublic-owned economic sectors and in regulating personal income without having to change the tax system, we can at least help the state increase its revenues by tens of billions yuan per year, even if there will still be a slight loss of tax revenue.

#### **Strictly Control Taxation To Ameliorate Social Imbalance**

The document points out that naturally we should control the widespread tax-dodging activities of varying degrees which exist in a large number of state-owned enterprises. However, we should also realize at the same time that some of the state-owned enterprises are evading taxes because there is no alternative. Both sides should assume the responsibility. On the one hand, the leaders of these enterprises are doing this out of their departmental selfish consideration. On the other hand, there truly exist problems of treating state-owned enterprises unfairly in some of our policies in the past. Therefore, we must analyze the cases of tax evasion in state-owned enterprises. If those who contract to run these enterprises try to reap staggering profits for themselves by evading taxes, we must resolutely take strong measures against them. If the leaders of the enterprises try to increase the portion of profits retained for the enterprises' own use by evading taxes, we should rely mainly on education, while making punishment subsidiary. Right now, our main task is to strike at those unscrupulous merchants who become rich by evading taxes. Those include foreign business people (also merchants from Hong Kong, Macao and Taiwan) who have been found and proven guilty of serious tax evasion. This practice will help

directly increase the state revenue and reduce the deficit of the central budget. Meanwhile it will also calm the dissatisfaction at the unfair income distribution in society among the large number of cadres, intellectuals and the working masses who truly rely on their legitimate income to become rich, and ameliorate social imbalance. Therefore, curtailing the loss of tax revenue is not only of great economic significance but also of great political importance.

#### **Appeal To Boldly Control Chinese-Foreign Joint Ventures, Cooperative or Exclusively Foreign-Funded Enterprises**

The document points out that in recent years, the tax authorities in various localities universally show their fear of difficulty. They fear that excessive and more rigorous control would lead to negative political effects and thus make the taxpayers of the Chinese-foreign joint ventures, cooperative or exclusively foreign-funded enterprises doubt about how long the policy of opening to the outside world would last.

The document points out that the fundamental aim for the implementation of the long-term policy of opening up to the outside world in China is to make use of this policy to quicken the pace in developing the domestic economy. The advantages of the state and the people in implementing this policy are mainly manifested in the increase of revenues at the central and local levels derived from the taxes and in the profits paid by the Chinese-foreign joint ventures, cooperative or exclusively foreign-funded enterprises. We have granted various preferential treatments to such joint ventures and enterprises to convince foreign business people that they stand to gain by making investment and building factories in China's coastal areas or hinterland. However, the final objective in doing all this is to benefit ourselves, while benefiting foreign investors at the same time. It is not like some people claim that we can consider our main objective achieved as long as we can attract foreign capital to come to China, build factories and provide jobs here. It is not likely that those who come to China to invest, engage in construction or business operation, do not understand this reason. Thus, as long as our tax collection and administrative staff members can handle all affairs in accordance with the law, there is no need to worry about whether or not the taxpayers of the Chinese-foreign joint ventures, cooperative or exclusively foreign-funded enterprises have any doubt or fear of China's open policy.

The document points out that if there are really a few foreign investors who like to make money on the mainland, but they do not want to observe the relevant laws of the PRC, and they still argue tediously and vexatiously on this issue, it is their own personal problem. We will never relax our efforts to strengthen tax control and supervision over their enterprises.

### Private Enterprises Paid Less Than 30 Percent of Taxes

The document points out that a figure has been derived from a sampling survey on the volume of business, annual net profits and other indexes of individual business people and private enterprises and from a comprehensive analysis conducted by the relevant department on the annual production output value of all the individual business people and private enterprises in China. That is, the tax revenue from all individual business people and private enterprises in China should be approximately 70 billion yuan by the end of 1992, if all these business people and enterprises do not hide their products or evade declaration of dutiable goods, and they pay all taxes in accordance with the law. However, the actual state revenue in this connection is less than 30 percent of this figure.

As of the end of September 1992, the total amount of taxes paid by all individual business people and private enterprises in China reached 14 billion yuan. This amount is expected to reach 20 billion yuan by the end of 1992. This figure is about the same as that in 1991. However, the number of China's individual business people and private enterprises at that time were increased by 18.5 percent and 16 percent respectively; the number of employees by 6 percent; and the amount of registered capital by 29 percent as compared with the same period in 1991. From these figures, we can see that the loss of tax revenue in 1992 is more serious than that in the previous years.

### Serious Tax Evasion as Seen From Personal Bank Deposits

The document points out that from the amount of personal bank deposits, we can also realize the seriousness of tax evasion. As of the end of 1991, the total amount of savings deposits of individuals in urban and rural areas plus their cash on hand already exceeded the 1,000 billion yuan barrier. This amount includes not only the amount of taxes evaded by individual business people and owners of private enterprises, but also some personal income regulatory taxes which are evaded by some individuals with excessively high income. According to an expert's estimate, at least 200 billion yuan of the aforementioned 1,000 billion yuan should be turned over to the state treasury, if China had appropriate laws and supportive policies for the control of taxation at the beginning of reform and opening to the outside world, it could have successfully collected most of the taxes on schedule on the basis of the laws and policies.

### Tax Evasion Is Admittedly Hard To Prevent

The document reveals that the increasingly serious situation in tax evasion which arose after reform and opening to the outside world is caused by several reasons. The first one is the imperfect, incoordinate and irrational legal system. The second one is lack of modernized means of control. The third one is that taxpayers

have little sense of responsibility to observe discipline and abide by laws. The fourth one is that there are problems within the state taxation department such as unreasonable staffing quota and incompetent tax staff members and so on.

In an analysis, the document points out that due to the above-mentioned reasons, on the one hand, the state fails to collect the taxes which it should gather, while on the other hand, many individual business people and the proprietors of many private enterprises cannot withstand the taxes levied by the government and the appropriation of various arbitrary and unfair charges made by the industrial and commercial associations, the public health, city environment, transportation and public security departments and even the neighborhood committees. This has made the individual business people and the proprietors of private enterprises, who are originally not so eager to pay taxes, even more antagonistic to the government administrative department; and brought the state tax control program into a vicious cycle for a long period of time.

It should be admitted that due to the aforementioned four reasons, the loopholes in state control and supervision over taxation will continue to exist for a long time in the course of developing socialist market economy. Facts have substantiated that even in Western developed nations where market economy has been developed over a protracted period of time, and modernized means have already been used to oversee the income of all the people in the country, there still exist considerably large loopholes in taxation. Right now, under the existing conditions in China, it is still impossible to emulate the Western nations in using modernized means to oversee the personal income of all the people in the country. Therefore, during a fairly long period of time in the future, the loss of control in regulating personal income will possibly remain the most difficult problem in enforcing tax collection in our nation.

### Tax Cheating, Evasion in Private Economy Scrutinized

93CE0499A Beijing JINGJI RIBAO in Chinese  
23 Mar 93 p 7

[Article by Kai Ping (0418 1627): "Income of Individual and Private Economy Proprietors and the Problem of Tax Control"]

[Text] Reform and opening to the outside world over the past decade and more has played a positive role in developing the individual and private economy, in increasing production, in invigorating commodity flow, in making markets boom, in expanding employment, and in making life easier. But even while the development of the individual and private economy has found social approval, people are still somewhat concerned about the earnings of the proprietors of individually owned and privately owned business concerns. Why is it that individual entrepreneurs in other countries can just

make enough to live while quite a few individual entrepreneurs in China have become enormously wealthy? Is the national policy toward the individual and private economy appropriate? A discussion of some of our views on this matter appears below.

### 1. Analysis of the Income of Proprietors in the Individual and Private Economy

A number of tens of thousand yuan, hundreds of thousand yuan, and even million yuan businesses have indeed appeared in Chinese society. A 1991 survey conducted by the units concerned shows a small number of proprietors in the individual and private economy in the lowest and highest income bracket and most of them in the middle. The number of individual economy entrepreneurs having an annual income of up to 10,000 yuan is about 10 percent in cities and no more than 5 percent in rural villages. The number that have gone bankrupt or who can only eke out a living is also small.

Their earnings come from three main sources, or one might say, they are of three types: (1) From work, meaning income obtained through honest labor and legal dealings; (2) from other than labor, meaning investment income, differential income, risk income, and the surplus labor of employees; and (3) illegal dealings to obtain illegal income mostly in the form of some people using contacts or bribery to resell goods at a high profit, the manufacture and sale of fake, imitation, counterfeit, and shoddy goods, smuggling and illegally selling goods, short weighing and measuring, and tax cheating and tax evasion.

We believe that the above three types of income can be spotted in the following ways: The income of individual entrepreneurs who make a living through labor should not be very much higher than that of staff members and workers in national enterprises. Furthermore, since they are not fussy about working hours and working conditions, and since they do not receive free medical care, retirement pensions, housing and such national welfare benefits, a somewhat higher after-tax income must be considered only reasonable. The main reason people generally feel that individual entrepreneurs make money easily is that some of them make fairly high incomes without working or illegally. Some of these fairly high incomes that are made without working result from the country's less than perfect system for apportioning returns. (This will be further analyzed below). In cases where illegal means are used to obtain ill-gotten gains such as manufacturing and selling false, imitation, counterfeit, and shoddy goods, administrative and legal methods must be used to confiscate the goods and mete out fines, severe punishments given to stamp out such practices. Taxation will not likely solve the problem.

The less than perfect system for apportioning returns mentioned above is manifested in an inequitable distribution of income in society. It includes an overly high income for some individual and private economy proprietors. It also includes a fairly large earnings gap

between different sectors and industries, the overly high earnings of some staff members and workers in three kinds of partially or wholly foreign-owned enterprises, the overly high incomes of some contractors and lessors, and the abnormally high incomes of a small number of famous performers. These problems exist because of the inequitable price system, lack of a standard apportionment policy, and the as yet not fully developed public ownership economy during this period of change in the economic system. They are also attributable to the inability of management supervision's to keep pace, and there are also some deep-rooted social and historical causes, as well as force of habit. These problems must be dealt with by using to the full the regulatory, control, and supervisory roles of taxation to regulate overly high incomes. However, the usefulness of taxation in regulating inequitable income distribution can only be limited. This is because, first of all, tax regulation is after the fact rather than prevention before the fact. Second, the so-called inequitable income distribution stems from overly high income and labor income factors, as well as illegal work income factors. Since the system for apportioning income is not well developed and since the limits on income are not clear, taxation policy cannot be readily applied. Public opposition to excessive taxation is also fairly great, so real results will be less. Moderate taxation is unlikely to bring desired results. Thus tax policy for the individual economy faces difficult choices.

In many countries, small retailers can only eke out a hand-to-mouth existence, their incomes being at the lower mid-level in society. In China today, however, individual economy income is higher than the average for society, and some people have even become wealthy as individual economy entrepreneurs. This is largely attributable to China's different historical and economic background. In foreign market economy countries, economic competition is fierce and markets respond sensitively. The difference between income from capital and income from labor is fairly clear. Individual retailers operating with a small amount of capital make money mostly from labor. They operate at a low level and the scale of their business activity is narrow; thus they cannot easily penetrate the circle in which capital competes. In China today, however, competition in the state-owned economy is very ill-developed—particularly so in the commodity circulation and services areas. This provides a fairly permissive atmosphere for the individual economy and the private economy to fill a business vacuum insofar as the conditions for their development permit. Some people even exploit policy loopholes to become rich at the expense of the national economic interest.

### 2. Problems With Taxation Control

In response to the development of the individual and private economy, several years ago the state drew up income tax regulations for individual industrial and commercial concerns and private enterprises. These regulations provided for an individual income adjustment tax, and taxation cadres spent a very great amount of



energy on enforcing these regulations. During the past several years, the State Council and the State Administration of Taxation issued a series of decisions and notices about individual industrial and commercial concerns and private enterprise tax collection and control, and about the investigation and elimination of tax cheating and tax evasion. Several years of efforts have produced an effective and workable tax collection and control regulation system that includes timely adjustment of the amount of proprietors' taxes and better control over ledgers. This body of laws, regulations, and procedures both protects and advances the healthy development of the individual and private economy. It also strictly controls tax collection, and it has resulted in a considerable increase in individual tax receipts for a number of years in a row. From 1988 through 1991, individual tax receipts amounted to 9.2 billion, 13.2 billion, 14.5 billion and 17 billion yuan. In 1992, they reached 20.3 billion yuan. This payment into the national treasury of a enormous amount of tax money occurred despite a fairly severe shortage of tax collectors. It was obtained drop by drop from millions of proprietors through arduous work.

But even so, individual and private economy tax collection and control is still a fairly long way from our goal and our needs, and even less does it meet the expectations of very many people. For both subjective and objective reasons, cheating on individual economy tax returns remains fairly widespread in many places.

The main reasons attributable to tax collection work are as follows:

- (1) The tax collection and control system must be made more scientific;
- (2) the number of tax collection and control personnel and tax collection and control methods do not meet needs; and
- (3) the quality of a small number of tax cadres is not high, and some problems exist with tax collectors not collecting taxes as they should because of personal relationships.

Objective reasons include:

- (1) The individual economy contains a multitude of people. Unlicensed businesses are on the increase. They are spread out over a wide area, move from place to place, and are concealed.
- (2) People doing business in the individual economy come from many different backgrounds. There is no lack of honest laborers, but there are also a fairly large number of people who are not very well educated and who have little concept of the law. A small number of them even flout the law and discipline, figuring out ways to cheat or evade taxation.
- (3) Most dealings in the individual economy are in cash; in many cases no accounts exist that can be inspected.

Both the individual and private economy have grown substantially since 1992, and business methods, the scale of business, and the make-up of personnel have changed

markedly. Generally speaking, this is a good thing, but at the same time it has further increased tax collection difficulties. This problem must be tackled from the standpoint of promoting the development of a socialist market economy, public control of the individual and public economy enhanced and improved. First, the role of taxation must continue to be used, a good job done in individual and private economy tax collection and control to guide them toward healthy development within the socialist economy. Second is close attention to the building of a fine market order, attending to the sources of the problem by beginning with the income distribution system, the pattern of income distribution, and income distribution policies for comprehensive control.

## AGRICULTURE

### CASS Researchers View Current Agricultural Problems

93CE0471A Beijing ZHONGGUO NONGCUN JINGJI [CHINA'S RURAL ECONOMY] in Chinese No 3, 20 Mar 93 pp 3-7

[Article by Lu Xueyi (7120 1331 5669) and Zhang Houyi (1728 0624 5030) of the Institute of Sociology under the Chinese Academy of Social Sciences: "Some Comments on Current Agricultural Problems"]

[Text] Editor's note: We believe that the agricultural situation at present resembles that in 1984 and 1985, and a new agricultural stagnancy may appear unless a policy adjustment is made in time. We welcome discussions by the public on the problems revealed in this article. [end editor's note]

Since China put into effect the state monopoly system for the purchase and marketing of staple agricultural products in 1953, there have been four big ups and downs in agriculture. Insofar as grain is concerned, the output, with continuous fluctuations, has been far from stable. Past experience shows that when the entire country, from high-level cadres to the masses at the grassroots, felt that grain was abundant, or in other words, when people throughout the country from the top down relaxed their attention to agriculture, there would appear a sudden drop in grain and cotton production. China is a big country very short of arable land but with a vast population and a constantly growing demand for such staple agricultural products as grain and cotton. Because of this, we should not, even for a single year, relax our efforts at agriculture. Comrade Deng Xiaoping once said: "If anything goes wrong with agriculture, the effect cannot be remedied in three to five years."

Awfully alarming is that presently there are already signs pointing to another possible decline in the output of the two staple agricultural products, grain and cotton. In view of the lessons we have learned in the recent past, it is imperative to take preventive measures as early as possible.

### The Grain Question Should Not Be Taken Lightly

Some comrades are rather optimistic, thinking that it is good to have a reduction in grain output because it can cut down our grain stockpile and alleviate the pressure



caused by difficulty in selling grain. Some rural work comrades and farmers also hold that we should trim our grain output to some extent. With less output, they opine, grain will become more costly, and people will give greater attention to agriculture. This kind of view is very dangerous if judged from the standpoint of managing a big country with a 1.17 billion population!

In the first place, China's agriculture lacks a sound foundation. Although we have made great headway in consolidating our agricultural foundation during the past four decades, it is still relatively fragile and cannot stand severe natural calamities and man-made setbacks. Take grain as an example. We have 240 billion jin in stock (including a 70 billion jin state reserve), averaging about 205 jin for each person. This is sufficient for about six months' consumption for our entire society, and is, therefore, above the grain stock's safety line. This is a foundation that we have laid through our longtime efforts. Upon this foundation, which has not come easily, hinge the stability of our grain price, the stability of our people's livelihood, and the stability of our society. However, we should have a better foundation than this if we are more economically capable. Our eastern neighbor, Japan had an average per-capita grain stock of more than 400 jin throughout the 1980s.

Second, the 240-billion-jin state stock is scattered in nearly 100,000 granaries across the country. Under the present financial system known as serving meals to different diners from different kitchens, the governments at various levels and the departments concerned are empowered to act flexibly within a certain limit. Proceeding from their own interests, some localities and departments have often made withdrawals from the stock without recording them, resulting in discrepancies between the record and the actual inventory. The 1986 record showed that the nation had more than 60 million dan of cotton in stock, while the actual inventory was only some 40 million dan. This was a case in point.

With regard to the grain issue, what is alarming is that there have been numerous instances in our country where chain-reaction price hikes were created artificially. When grain was in abundant supply, some provinces would say that they had too much grain. Other localities, on seeing an increase of their grain stocks, followed suit and reported that they had too much grain and their stocks were excessive. Even those provinces and municipalities that should acquire grain from other localities postponed their acquisition on the excuse of no storage space or other reasons so as to wait for a drop in price. When grain was in short supply, the grain-exporting provinces, in anticipation of a price rise, refused to sell grain to other provinces even though they had enough supply to do so. Fearing a supply shortage, the provinces relying on imported grain sent out their representatives to buy grain from every possible source even though their stocks were above the safe level. These phenomena especially deserve attention at this time as

China's grain purchase and sales system is changing from the traditional planned system to a market economic system.

Now, everyone around the country says that grain is abundant and that there is a large stockpile. Some provinces and municipalities relying on grain supplied by other localities and some big enterprises requiring grain as a raw material are trying to put off their purchase to wait for a further decline in price and to reduce the risk involved in storing grain. Some enterprises are using such a strategy as buying just enough to meet their current requirements. This has increased the burden on grain-producing areas and aggravated their difficulties in selling as well as storing grain.

Third, if actual need arises, how much of the 240 billion jin of grain can be sent out? How much is truly marketable? As far as we know, Zhejiang Province has 8 billion jin of early-maturing long-grain rice in stock for over three years. This kind of rice ripens early but is of low quality. In the past, the only reason that farmers grew this kind of rice was to fulfill the state's procurement order—they themselves would not eat such rice. If Zhejiang, which is a grain-importing province, has such a big stockpile, provinces exporting large quantities of grain, such as Jiangxi, Hunan, and Hubei, should have more such old rice in stock. As a matter of fact, we have learned that an estimate of 20 billion jin of such early-maturing long-grain rice are stored in the granaries of Jiangxi, Hunan, and Anhui provinces. Some of the stocks are more than three years old and have already turned yellow and deteriorated.

Fourth, one of the basic features of China's agriculture at present is small-scale production with a large market. After the introduction of the household contract responsibility system linking remuneration to output, the 225.66 million rural households are, in reality, 225.66 million small rural enterprises, each having its own decision-making power with respect to production, marketing, and operations. Yet, these small households engaged in small-scale agricultural production have to face a large nationwide market. How to successfully guide, organize, and orchestrate these 200 million plus rural households and link them to the large nationwide market is a big question. So far, most rural households in China are engaged in agricultural production as their principal means of livelihood. In a certain naturally and historically formed area, all rural households have small plots of land, the same traditional farming techniques, and similar consumption levels and habits. That is, they bear striking similarities. Since the start of the reform and opening-up drive, farmers have often followed each other's example and taken similar actions in the course of transformation from traditional to modern agriculture. This is also the case with the grain issue. The current problem is difficulty in selling grain. Everyone is complaining that grain is hard to sell, and the market price has plunged to a five years' record low. But the lower the grain price, the more rural households want to sell their grain for fear of a further drop in price. Even

households with not much grain in stock are following the trend and trying to sell their grain. Because of such a vast number of rural houses plus other reasons, we certainly have no way of knowing how much grain they really have. According to past experience and lessons, however, if some sign appears (for example, a sign showing that next year's summer grain harvest will decline) and when more units and people in one or several areas are buying grain, resulting in a slight rise in price, farmers may switch from selling grain to buying grain. Without proper adjustment and control, this may trigger a large-scale or even a nationwide buying spree. In anticipation of a price hike, farmers will no longer sell their grain; some may take part in the spree of buying and hoarding grain. The grain supply on the market will soon be depleted, and difficulty in buying grain will reappear! This was one of the radical reasons for the queer phenomenon several years ago when the market was suddenly depleted of grain supply. China's rural households are engaged in small-scale production without a strong economic capability. Each household can buy or sell only several hundred jin to 1,000 jin of grain, but the number of such households is huge. If all vie to buy or sell grain, no market whatsoever can sustain the impact. This is a special feature that we should recognize.

#### **We Should Not Be Optimistic About the Present Agricultural Situation**

If agricultural production rises steadily and grain remains in abundant supply, the above-mentioned fluctuations on the grain market are no big deal.

In 1992 we had a good summer grain harvest. The total output was 206.4 billion jin, up 9.6 billion jin compared with the previous year and hitting an all-time high. Since the beginning of the summer season, however, people in various localities had somewhat relaxed their efforts for agriculture. The acreage of early rice and other summer-sown crops was reduced by some 15 million mu, and the work of field management was also unsatisfactory. This, plus the drought in many areas (240 million mu were hit by drought in the whole country) and waterlogging in certain localities (76 million mu), resulted in a reduced output of the autumn-ripening grain crop. As for cotton, reduction in output was even greater because of the drought and other natural disasters suffered by Shandong, Hebei, Henan, and other cotton-producing areas. Nationwide, 1992 was only an average year of agricultural production.

Here is a noteworthy question: As of the end of October 1992, only 5.27 billion jin of grain had been purchased by contracts by the commercial departments throughout the country. This was 15.1 percent less than the corresponding period of the preceding year and fulfilled only 52.7 percent of the procurement quota, which was 9.8 percentage points less than the record registered a year ago. By 10 November, only 54, 46, and 38 percent, respectively, of the grain, cotton, and cooking oil procurement quotas had been met. In other words, after the

peak procurement period, only about 50 percent of the grain, cotton, and cooking oil procurement quotas had been fulfilled. This was quite different from the situation of previous years. With regard to this unusual phenomenon, the department concerned gave the following explanations: First, procurement funds were not available in some cases (some funds earmarked for purchasing agricultural products were diverted to other purposes). Second, there was insufficient granary space—the granaries were generally full of stocks. But there was a third reason: Grain and cotton procurement departments in all localities were modifying their operational mechanism, and in the absence of new policies, most of them only cared about their own interests and lacked enthusiasm to purchase and store grain and cotton. This caused large quantities of grain, cotton, and other agricultural products to be stockpiled at the homes of farmers and remain unsalable on the market. Still another reason was that the 1992 autumn harvest was not good, and especially the cotton harvest showed a sharp decline. Yet, because of the shortage of funds and the numerous needs for money, the reports submitted by various localities to the state contained inflated forecasts of cotton and grain production so as to get more procurement funds from the state.

On the whole, however, the agricultural situation in 1992 was not so bad. In view of the harvest of that year plus the stocks accumulated over previous years, we do not expect any big supply problem before the 1993 summer harvest.

The question is our agriculture in the future. There are signs showing that problems in agricultural production are very likely to occur in 1993. This is worth our vigilance, and we must do something in advance.

First, arable land has been reduced sharply. The year 1985 witnessed a climax of the problem of arable land used for nonagricultural development projects. During that year, a total of 24 million mu of arable land were misused, and the cultivated acreage was reduced by 15 million mu. The party and the governments at all levels exerted great efforts and did a lot of work to put the problem of sharply shrinking arable land under control. Since 1991, however, there has been a sharp increase in the use of arable land for construction projects. The arable land misused in 1991 increased more than 30 percent, and the cultivated acreage shrank by 3.5 million mu. Since spring 1992, economic construction has proceeded at a quicker pace, and accordingly arable land diverted to nonagricultural purposes has shown a big rise. A relatively large number of local governments and departments, out of their own interests and desires, have used land as a principal means to solicit investment, raise funds, and create wealth. They have followed each other's example and compete with each other in a race for establishing development zones of one kind or another, setting up large-scale investment areas and trade fairs, and forming real estate companies. Now, development zones have been established not only by provinces, prefectures, cities, counties, townships, and

towns but also by villages. According to statistics compiled by the department concerned, our country had 1,200 development zones of one type or another as of the end of 1991. Now, the number of development zones of various types at various levels has exceeded 8,000. In Zhejiang Province alone, there are 401 development zones, of which only 12 were approved by the state or provincial authorities. Most of these development zones are located on the outskirts of big and medium-sized cities or along railways or highways. Of the land occupied by them, the vast part was formerly high-yield grain fields or vegetable plots. Due to its high profit, the recently emerging real estate business has strongly attracted various units and individuals, both Chinese and foreign, resulting in the springing-up of real estate companies. In essence, the principal business of these companies is vying and rushing to buy the still-cheap land. In Guangdong Province, there were 929 real estate development companies (which took up 18,390 mu of arable land) in the first half of 1992. Liaoning Province had 260 real estate companies in 1991; the number rose to more than 400 in the first half of 1992. Business giants in Hong Kong, Taiwan, and foreign countries are all casting a covetous eye on China's land. In July 1992, Fujian Province solicited investment from Hong Kong and signed 32 agreements with Hong Kong investors on the development and lease of large tracts of land. These agreements covered 23,565 mu of land with a total investment of \$881 million. It is estimated that more arable land was used for nonagricultural purposes in 1992 than in 1985. Judging from the situation in various localities, the trend of misuse of arable land has not been completely checked.

Second, the low grain price has hurt farmers. It has seriously dampened farmers' enthusiasm for grain farming. Their problem of difficulty in selling grain and cotton has persisted for three years. The market prices for grain and other staple agricultural products have continued to drop during the past few years, and now they are below the state purchase prices. According to data collected from main grain-producing areas, including Hubei, Jiangxi, Anhui, and Jiangsu, the price for 100 jin of paddy was more than 40 yuan in 1990. It dropped to some 30 yuan in 1991. In 1992, the price set in the state purchase contract was 24 yuan. Due to lack of funds or for other reasons, many grain stations procrastinated in purchasing grain from farmers. Some grain stations made the purchase, but issued IOUs instead of paying cash to the farmers. Others refused to purchase or made the purchase without even giving IOU's to the farmers. Being in need of money, most farmers put their grain on the market, but the market price plummeted. In some cases, the price was only 17-18 yuan per 100 jin. Even at such a low price, many farmers could not sell their grain. Because of this, they were deeply discontented, and complaints were heard everywhere.

While the grain price is dropping, the prices of capital goods for agricultural production continue to go upward.

According to a survey by Jingmen City, Hubei Province, the price of urea rose to 980 yuan per ton in 1992, up 8.9 percent over the preceding year. The price of phosphate fertilizer was 268 yuan per ton, up 9.1 percent. There was a 30 percent rise in the water charge. Because of these price factors, the 1992 per-capita income of farmers in Jingmen City declined by 40 yuan. Because of the increased production cost, the net income from each mu of paddy rice was only 30.92 yuan in 1992. This was 35.58 yuan less than the preceding year, or a drop of 53.5 percent.

The very low income from grain farming and the great difficulty in selling grain have no doubt dampened farmers' enthusiasm in growing grain. In both the summer and fall of 1992, instances occurred in which farmers refrained from harvesting their grain (wheat and early rice). In Wenzhou, some farmers burned their wheat crops in the fields instead of harvesting them. In 1992, the acreage of autumn-sown grain crops declined by some 4 million mu. The problem of leaving land idle is becoming increasingly serious in various localities.

Third, the zero or slow growth of farmers' actual income in various parts of the country over the past three years has given rise to a number of economic and social problems. According to information released by the State Statistical Bureau, the annual per-capita net income of farmers for 1989-1991 averaged 708.55 yuan, as against 544.94 yuan in 1988. This showed a rise by 163.61, but if the 27.1 percent rise in the price index for this period is taken into account, the actual income growth for these three years was only 2.2 percent, or an average annual growth of 0.7 percent. These are average figures for the whole nation. The above-mentioned three years saw a rapid development of township enterprises and nonagricultural undertakings in southeast coastal areas and in the suburbs of big and medium-sized cities, and as a result, the income of farmers in these areas increased considerably. In the central and western parts of our country and in those provinces and autonomous regions relying predominantly on agriculture as a source of revenue, farmers' income actually declined during these three years. Statistics covering 10 provinces and autonomous regions, including Anhui, Hebei, Inner Mongolia, Jilin, Hubei, Guizhou, and Ningxia, reveals that the net income of nearly 300 million farmers in 1991 was less than that in 1988. Nationwide, about one half of the rural households actually had a declining income during these three years.

The zero growth of farmers' actual income has a serious consequence. It has led to many rural economic and social problems. The most direct result is the dampening of farmers' productive enthusiasm and the reduction of their input into agriculture. Agricultural production is thus affected. Statistics show that, after adjustment for price hikes, fixed asset investment made by farmers nationwide in 1989 showed a 22.2 percent decline from the preceding year; the decline was 35.4 percent in 1990 and 18.2 percent in 1991. Meanwhile, the money spent by farmers for production expenses also dropped each

year. Reduction of their input into agriculture will inevitably affect and restrict the steady growth of agricultural production.

Fourth, unreasonable farmer burdens are becoming heavier and heavier despite repeated orders to prohibit the imposition of such burden. This is the most serious rural social problem at present. Since the institution in rural areas of the household contract responsibility system linking remuneration to output, both the operational and the accounting units have changed. The distribution principle as understood by both cadres and farmers is: "After meeting the state quota and giving enough to the collective, the remainder is ours." "Meeting the state quota" is fulfilling an obligation to the state. The amount is fixed legally, and there is no question about farmers' fulfillment of this obligation. "Giving enough to the collective" means giving a portion of the harvest to the collective to meet its expenses disbursed for the public. Generally speaking, since most farmers are reasonable, there is also no question in this regard. But the question is: How much should they give to the collective? What is really meant by giving enough? Is there a limit? The first few years after the institution of the contract responsibility system saw no problem with this. In 1983 the problem arose when farmers in some localities complained of too many burdens imposed on them. After that, the State Council issued a document stipulating that farmers' contribution to the collective should be no more than 5 percent of their net income for that particular year. Every year since 1985, the party Central Committee and the State Council have stressed the need to lighten farmer burdens. To this end, they have spared no efforts to promulgate documents, hold meetings, make arrangements, and have their leaders deliver speeches. Nonetheless, the result is that farmer burdens have become heavier each year, and the excuses used to collect money from farmers are multifarious.

Fifth, cadres are impatient and not in the mood for agriculture. Since spring 1992, our reform and opening-up drive has progressed at an accelerated pace, and the economy has entered a rapid development stage. While the situation is fine, there are some problems worthy of our attention. For example, crazes for development, for establishment of small industrial zones, for real estate business, for stock trade, and for secondary jobs have appeared in various localities. In the present momentous tide, cadres' enthusiasm to run businesses has surpassed that in 1985. Especially since the summer season, when the news spread that some government organs would be closed down or merged with others and the size of the cadre contingent would be reduced, even those cadres who used to be unswayed have been unable to remain still. Amid the various crazes, few people show enthusiasm for agriculture. What is more, many of the crazes are directly harmful to agriculture and farmers' interests. For example, they have taken up large tracts of farmland and large amount of funds originally earmarked for agriculture or have collected money from and imposed

burdens on farmers. More important, the cadre contingent originally designated to ensure agricultural development is changing its work direction. As far as we know, key leading cadres in some localities are now in no mood to take care of agriculture, but are devoting their main energies to such fashionable undertakings as developing industry and setting up development zones. Even cadres of rural work departments, agricultural economic commissions, and agricultural bureaus are in no mood to take care of agriculture. All are doing business to make money. Who bothers to pay attention to agriculture? Who cares about the people's needs for food and clothing?

Sixth, as a result of years of efforts spent on the market-oriented reform, the state monopoly system for the purchase and marketing of staple agricultural products, which have been implemented for nearly 40 years, has reached a final stage. The state has decided to gradually remove the monopoly in various localities. A socialist market economic system will be established in rural areas, farmers will be led into the market, and the purchase and marketing of agricultural products will be totally liberalized. This direction is absolutely correct. The question is that the planned rural economic system, including primarily the state-monopolized purchase and marketing, has been implemented for nearly 40 years. Our cadres and farmers have carried out productive activities and lived under this system. Some aspects of this system have become their "traditions" and "customs." Because of this, a great deal of work should be done to ensure a successful transition from the old system to the new market economic system. It takes time to change those things that are several decades old. In no way should we use a rash, oversimplified decontrol method, which will mar an otherwise good job.

The present problem is as follows: Some localities and departments see the complete liberalization of the purchase and marketing of grain and cooking oil as a chance for them to get rid of their responsibilities. Others are trying to take advantage of this change by retaining the supplies allotted under the "three links" system [system linking low-price chemical fertilizers and diesel oil and deposit money to the purchase contracts for agricultural products] and the funds and materials originally designated for supporting grain and cotton production. Still others have shirked their duties on the pretext of "pushing farmers into the marketplace." They even refuse to buy the harvests of grain and cotton that farmers grew in spring as required by the purchase contracts.

Moreover, as far as we understand, a sizable number of cadres do not know how to lead the 1993 agricultural production work, and many farmers do not know what to grow in 1993. If there is a drastic reduction in the actual grain and cotton acreage in 1993 (due to the present low prices, a low income is expected from grain and cotton farming), grain and cotton production in 1993 will be a problem.

### Protection of Farmers' Interests Is of Key Importance

Questions concerning rural areas, farmers, and agriculture gradually stood out in the fall of 1992. These questions should be considered as serious. Failure to solve these questions in time or dealt with them properly may lead to an agricultural problem in 1993. Yet these serious questions have not been recognized by all in the rural areas. In particular, they have not been recognized by comrades of departments outside the agricultural sector. Some comrades still believe that our agriculture has been improved, and that we have more grain and cotton than we need. To prevent another agricultural stagnancy, we deem it imperative that the protection of farmers' interests and their productive enthusiasm be made an important part of our macro-policy. Our suggestions follow:

First, we should promptly adjust our policy to ensure a stable agricultural development. In the past, China experienced some instances in which agriculture took a turn for the better and achieved a stable development as a result of timely discovery of problems and adjustment of the policy. There were also lessons showing that agricultural production failed to improve for a long time and even had problems because questions arose and were not solved in time due to endless debate and hesitancy in making decisions. Now, a situation similar to that in 1984 and 1985 has come up. A diagnosis of the problem is "a comeback of the old disease." Over the past few years, we have steadily implemented the household contract responsibility system linking remuneration to output, developed the dual management system [combining household and collective operations] and socialized services, made progress in farmland and water conservancy construction, and further popularized the application of science and technology to agriculture. Meanwhile, improvement has been made in the supply of capital goods for agricultural production, such as farm machinery, chemical fertilizers, pesticides, and plastic sheeting (though the problem of low quality and high price has yet to be resolved). So the main problem is not within agriculture itself. The problem is that during the past few years we have paid more attention to the urban economy than to the rural economy and put more stress on industry than on agriculture, resulting in the overheating and the excessive scale of our industry plus an over-extended capital construction front. Experience over the past 40 years or so indicates that the appropriate ratio between the agricultural and industrial growth rates should be 1:2.5-3. In 1991, the nation's agricultural output value increased 3.7 percent, and industrial production 14.5 percent. Their growth rates had a ratio of 1:3.92. The agricultural growth for 1992 is estimated at 3 percent, and industrial growth 21 percent, or a ratio of 1:7. Industry has developed beyond the extent that agriculture, as the economic foundation, can support. An inevitable result of this under the current system is that agriculture will be elbowed out, and the interests of farmers infringed upon. The numerous problems and contradictions in rural areas over the past few years are, in the final analysis, due to the fact that we have made

the old mistake of taking too much from the countryside and "squeezed the farmers too hard."

The solution to this problem is to be determined as early as possible to make a timely policy adjustment. What needs to be cooled down should be cooled down, and what needs to be shortened should be shortened. We should resolve to lay emphasis on the countryside, farmers, and agriculture. We should unequivocally declare that it is imperative to protect farmland, farmers' interests, and agriculture. When we protect farmers' interests and when farmers have gained tangible benefits, we are protecting their productive enthusiasm. This way, we are also protecting agriculture, which is the foundation of our economy. So, in reality, what we are doing is protecting our national economy and making it possible to achieve a sustained, stable, and coordinated development of the economy as a whole.

Second, in the course of building a socialist market economic system, there should be policies and measures to protect agriculture. Agriculture, an undertaking connected with the growth of animals and plants, is affected by natural resources and climate. It is, therefore, often in a delicate state in market competition. The history of modern economy development has proved that agriculture is a productive undertaking requiring protection by the state through its macro-regulation and control. All economically developed countries in the world have laws, regulations, and policies to protect their agriculture. China's agriculture is still in the stage of transformation from the traditional agriculture based solely on experience into modern agriculture. As such, it is all the more delicate, and therefore, is especially in need of protection by the state's macro-policy. Now, China is gradually building a socialist market economic system through its reform drive. In building the new system, it is imperative to take into account the characteristics and state of our country's agriculture, pay due attention to protecting it, and formulate sound policies and measures in this respect.

To protect agriculture, it is of utmost importance to make financial appropriations for supporting agriculture, guarantee that agricultural needs are met in the allocation of resources, and protect farmers' interests in the distribution of income. Although the purchase and marketing system for grain and other staple agricultural products is now undergoing a change, the financial department should not abolish the original subsidies and preferential policies for grain and cotton farming. They should shift the emphasis of subsidization to supporting the work of production, scientific research, and commodity circulation in connection with these staple agricultural products. The purpose should be to provide tangible benefits to both agricultural producers and operators and give an impetus to agricultural development. This is a matter we should give priority consideration to at present.

### Roots of Peasant Burden Problem Examined

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[AGRICULTURAL ECONOMY] in Chinese No 3,  
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[Article: "Understand Why the Peasants' Burdens Are Too Great"]

[Text] Just why are peasant burdens so heavy? A reporter from this journal put this question to comrades in the All-China Peasants Burdens Supervision and Control Office, who feel that the main reasons may be found in the following:

First is the perception problem. One noticeable problem in perception at the present time is that acceleration of economic development and reduction of peasant burdens conflict with each other. Taking the building of the economy as the main focus and seizing opportunities to speed up development are common desires of the entire party and the people throughout the country. The more this is so, the more attention should be given to lightening peasant burdens. However, some comrades feel that talk about lightening peasant burdens does not fit in with accelerated economic development. These comrades do not use the commodity economy and the market economy approach and methods; instead, they are accustomed to using impulsive fund raising and arbitrary collection of fees and assessments to solve the problem of insufficient funds for development of the economy and for the building of economic sectors. When it comes to their own region and their own sector, they do all sorts of things and use all sorts of methods that violate State Council "regulations." They adopt an evasive, acquiescent, and even a supporting and protective attitude. Worse yet, a small number of comrades have little understanding of the actual living conditions of the majority of China's peasants. (They should know that there are numerous peasants everywhere in the country who have not yet escaped from poverty, and that an overwhelming majority of them have just recently managed to get enough to eat and wear. Having enough to eat and wear is not being comfortably well-off.) Furthermore, they do not consider the peasants' legal rights and interests, much less protect them. They have an extremely shallow understanding of the peasants. Methods that they cannot use with the 200 million urban residents, they dare use on the 900 million peasants in rural villages. Things that they dare not do to the 200 million urban residents, they dare do to the 900 million rural peasants. It is as though offending the peasants makes no difference. They feel that China's peasants are simple people who meekly submit to maltreatment, so one may do as he pleases with them. One can use high pressure tactics on them at will, order them around, or even use the law to collect assessments. Such behavior has seriously hurt the party's and the government's flesh and blood relationship with the peasants. If it continues, it is ultimately bound to have an adverse effect on the overall stability of rural villages, shaking the regime to its foundations.

Second is a galloping inflation of government department benefits. Government units have proliferated; agencies have inflated; overstaffing is rife, and operating funds are insufficient. These are generally existing problems. One basic way that rural villages use to solve the shortage of funds in government departments is to collect fees from the peasants. Some departments and units use a change in functions as a pretext for doing all possible to extend their turf, increase their strength, and garner benefits. They erect a "memorial tablet," insert a joss stick in front of it, and concoct various pretexts for collecting fees to obtain welfare benefits, "do real deeds," build multi-story houses, and buy automobiles for cadres, staff members and workers in their system. The slogan "let the people handle the people's affairs" is abused by every government organization. It has become a pretext for raising money and levying assessments, and for actions aimed at getting a promotion by attaining goals. Even though "regulations" explicitly provide an examination and approval procedure for all fee collections, raising of funds, and the establishment of funds, although both CPC Committee and State Council documents constantly reiterate the abolition of all formalistic activities for getting a promotion by attaining goals, and although these appeals are echoed from top to bottom, just one word or one document from any leader or any unit at a higher level becomes the "legal" basis for lower levels to violate "regulations," and a pretext for shifting responsibility. The so-called "inability to resist" is actually beneficial for oneself.

Third, the cadre management system is flawed. Nowadays, many jurisdictions only concentrate on superficial achievements in evaluating cadres. They use all sorts of methods to link norms and tasks to cadres' personal welfare. They emphasize task concepts to the neglect of law and discipline, and policy concepts. So long as a cadre has "career achievements," he can be regarded as forward looking and receive commendations leading to promotion and advancement. Such methods make a substantial number of grassroots cadres know only that they should keep their eyes peeled upward. In order to make career achievements during their tour of duty, they concentrate on short-term goals, are eager for quick success and instant benefits, and forget what they are about. They do not set work priorities, nor do they take into account what the masses can bear. They do not consider how to protect and stimulate the enthusiasm of the peasants, but rather they infringe the peasants' legal rights and interests at will. One provincial-level leading cadre said: "Until this way of doing things changes, peasant burdens will not decrease."

Fourth, the government acts inconsistently. Government departments have become departmentalized government. Government behavior has come to be doing as enterprises want. The departmentalization of government, and government acting the way enterprises want them to act is extremely common. Enterprises and operating units in some sectors use the power they possess to block the actions of government at the grassroots level, or they employ kickbacks, commissions, or bonuses as ingenious



methods to make the government do what enterprises want them to do. Thus, government at the grassroots level meekly submits to orders. Some grassroots leaders and government agencies act for whomever gives them money, and they feel that ends justify the means. More seriously, this is actually an exchange of money for power that seriously damages the prestige of the party and government. This situation shows a trend toward further development among administrative and operating units at all levels today in the operation of real entities and in working to make income.

Fifth is weak supervision and punishment. Departments in charge have a hard time doing anything by themselves. A lack of coordination of peasant burdens supervision and control authorities' functions and enforcement methods is universal. In some jurisdictions, rural administration and management units are not in very good shape. Their personnel are few in number and of low caliber. Even though "regulations" clearly make agricultural administrative units responsible for "supervision, examination, verification, and coordination," and also contain commensurate punishments for violations of "regulations," strong enforcement measures are lacking. Departments in charge cannot effectively exercise their punishment authority against units and individuals who openly violate "regulations." Violators are secure in the knowledge that they have strong backing. Law enforcement personnel can do nothing, and may even become targets for attack and retribution. Some provincial and county leading comrades assigned responsibility for this task told us: "It is very difficult to control this situation solely by relying on leading cadres assigned responsibility for agriculture and on agricultural units. If you do not agree to the raising of money and the levying of assessments, some leaders in charge at a different level of the government will agree; and if you will not sign off, they will." Some leaders in high level positions also lack an understanding of the whole situation. No matter how strong the cry to lighten peasant burdens, supervisory and control authorities are too weak to act, and they frequently are completely isolated. They can do nothing by themselves. Except for offending people, they accomplish nothing.

The foregoing five problems are the main reasons for peasant's overly heavy burdens, and they also reflect some more pervasive problems in the system. Even so, we feel that the problems can be gradually solved if only party and government leaders at all levels truly decide to work on them relentlessly, draw up truly effective methods, resolutely support supervision and control departments in the discharge of their duties, everyone working together with might and main.

### Cotton Supplies Sufficient in 1993

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[Article by Li Tiezheng (2621 6993 6927): "Is There a Cotton Shortage This Year?"]

[Text] On 8 March, the State Council convened the All-China Cotton Work Conference at which leading comrades told cotton-growing peasants the following: You will definitely be able to sell your cotton for a good price. They also announced a series of import new measures to promote cotton production.

This statement gave some firms and individuals the impression that another cotton shortage exists. They worry that another "cotton war" may occur like the ones that have caused headaches for the past several years.

To clarify the situation, I questioned the authorities concerned, who told me very explicitly that there will be no cotton shortage this year.

So why is the State Council especially concerned about cotton production?

The direct reason is that the decrease in cotton production during 1992 exceeded original plans.

Prior to 1990, a "craze for cotton textiles" raged everywhere bringing "cotton wars" in its wake, the eyes of many people focusing on this state monopolized agricultural product. Those bent on making a profit disparaged quality to hold down prices, thereby harming the cotton producing peasants. In addition, prices of means of production such as agricultural pesticides and chemical fertilizer rose. Some cotton-growing peasants and cotton dealers resorted to deceptive practices such as falsifying grade and adulteration to take "revenge." The result was a chaotic situation in cotton markets. Following major efforts by the state to set things straight, both cotton production and cotton sales returned to normal. In 1991, cotton output revived to the more than 100 million dan level for an easing of the tug of war between supply and demand. However, because of the issuance of IOUs, and natural disasters in some cotton-producing areas, interest in growing cotton was dampened once again, and in 1992 output fell to somewhat more than 90 million dan.

This was a worrisome situation. In 1992, Chinese textile exports produced \$24 billion in foreign exchange, and in 1993 the amount will increase. The 1993 state plan holds the country's cotton output within 25 million bales. The production of 90 million dan of cotton in addition to reserves in storage means there will be no problem in 1993 but the failure so far to plant all of the cotton growing area may adversely affect China's textile production in 1994.

Cotton is sown in April and harvested in September every year. However, disgusted with IOUs and the

natural disasters of 1992, some peasants in the cotton-growing regions of Hunan, Hubei, Sichuan, Jiangsu, and Hebei provinces did not set aside land for growing cotton that they should have set aside in October, so this will very likely hurt cotton output in 1993, and thus it will also hurt cotton textiles production and exports.

Therefore, the State Council issued a notice to reassure the public. It told the large numbers of cotton-growing peasants that the state would not let them suffer losses. Today, the price ratio between grain and cotton is pretty well straightened out, so the peasants realize that it is more profitable to grow cotton than to grow grain. The difference is in policies regarding grain and cotton and the form of payment. The state very well understands the feelings of the cotton-growing peasants; it has announced a new support policy for them, namely the issuance of discounted loans to support cotton production. It will issue 45 yuan for each dan of cotton it buys on fixed procurement. From the beginning of the new cotton growing year on 1 September, the system of making award sales of materials to cotton growers is to be changed to payment of a differential price. The former award sale of 70 jin of chemical fertilizer and five jin of diesel fuel per dan of cotton is to be replaced with the direct payment to cotton growers of a 12 yuan differential between the parity and negotiated sale price. This is to be paid to peasants at the time of procurement. The state cotton allocation and transfer subsidy paid in addition to the sale price to provinces that ship cotton by provinces receiving the shipments increases from 25 to 30 yuan per dan.

State Council leaders also noted solemnly that all jurisdictions that have taken possession or diverted to other purposes funds intended for cotton procurement are to restore them at once. If problems with funds again occur in 1993, they are to be dealt with severely, investigations conducted and responsibility fixed. The time before the cotton goes to market must be used to straighten out how much is still owing for cotton. Beginning now, banks are to honor exchange certificates issued during final settlement in the purchase of cotton, and greater supervision must be exercised to ensure that cotton procurement funds keep turning over so that there is no more issuance of IOUs.

At the present time, all jurisdictions are busy putting into effect various State Council measures to encourage cotton-growing peasants to grow cotton. Like grain, cotton has a bearing on the national economy and the people's livelihood. Today when the country is stymied by substantial differences between bumper and lean cotton harvests because the socialist market economy is not yet well developed, cotton prices and cotton selling channels cannot be completely decontrolled. Therefore, diligent implementation of cotton production measures and policies in conformity with overall state planning holds special importance in straightening out the correlation between supply and demand and fostering cotton markets. If every jurisdiction will put aside selfish departmentalism and deliver the state's preferential policies to the peasants, no cotton shortage will recur.



## Educational Developments Outlined in SEC Bulletin

93CM0252A Beijing ZHONGGUO JIAOYU BAO  
in Chinese 15 Mar 93 p 2

[Report: "State Education Commission Statistical Bulletin on 1992 Educational Development"]

[Text] In 1992 the entire nation from top to bottom worked hard to put into effect the gist of the speech delivered by Comrade Deng Xiaoping while on an inspection tour of southern China as well as the spirit of the 14th CPC National Congress. Both reform and the open policy picked up steam. Education of all kinds at all levels flourished. Survey results show that education developed strongly in China in 1992. Graduate education and undergraduate education grew significantly faster, vocational and technical education were strengthened, vocational and technical training for workers and peasants developed rapidly, nine-year universal compulsory education made steady progress; secondary education was made available to more people, special education made impressive headway, preschool education made gratifying progress, and the achievements of anti-illiteracy education continued to consolidate.

### 1. General Higher Education

The development of general higher education accelerated. In 1992, 754,200 students were admitted as undergraduates and special technical students, 134,300 more than a year ago, an increase of 21.66 percent. Of the 754,200 students admitted, 349,800 were admitted by colleges and universities and 404,300 were admitted by polytechnics, the ratio being 1:1.15, up from 1:0.88 a year ago. Altogether 2,184,400 students were enrolled in universities and polytechnics, 140,700 more than the preceding year, or 6.89 percent. Of the 2,184,400 students enrolled, 1,329,500 were enrolled in universities and 854,900 in polytechnics, at a ratio of 1:0.64, up from 1:0.55 a year ago. Between them universities and polytechnics graduated a total of 604,200 students last year, 332,100 by universities and 272,100 by polytechnics.

Progress was made in graduate education; 33,400 graduate students were admitted last year, (5,000 as doctoral candidates and 28,300 as masters candidates) 3,700 more than a year ago, up 12.5 percent. Total graduate school enrollments stood at 94,200 and 25,700 students graduated.

Of the total intake of freshmen by universities and polytechnics, 550,300 were under the state plan, basically the same as last year, 201,200 were self-financed or sponsored by the State Education Commission, up 190 percent compared to the previous year, constituting 26.6 percent of the total intake of students by universities and polytechnics in 1992, up from 11.2 percent over 1991.

The choice of specialties by students admitted to universities and polytechnics in 1992 changed compared to the

preceding year. Finance and economics, arts, engineering, and art all saw their proportion of freshmen go up; agriculture, forestry, medicine, teachers' training, science, and physical education experienced a relative decline; while politics and law basically held its own. Proportional changes in freshmen intake by subject are presented in the following table:

Table 1. Universities and Polytechnics: Changes in Admission by Subject

	1991	1992	Change
Total	100	100	0
Engineering	34.61	34.95	+0.34
Agriculture	4.04	3.82	+0.22
Forestry	0.99	0.94	-0.05
Medicine	7.89	7.81	-0.08
Teachers' Training	29.64	27.61	-2.03
Arts	4.57	4.96	+0.39
Science	3.95	3.82	-0.13
Finance and Economics	10.83	12.53	+1.70
Politics and Law	1.92	1.92	0
Physical Education	0.62	0.60	-0.02
Art	0.94	1.04	+0.10

Teaching and administrative staff at all general universities and polytechnics across the nation totalled 1,013,600 in 1992, 4,700 more than the preceding year. Of the total, the number of full-time teachers fell from 390,800 a year ago to 387,600, a decrease of 3,200. The faculty:student ratio rose from 1:5.23 the preceding year to 1:5.64. Senior faculty members made up 26.86 percent of all full-time teachers, up from 25.46 percent a year ago.

Because of the rise in student admissions, the number of students per institution rose from 1,901 a year ago to 2,074. Specifically, the average was 1,051 students per institution among polytechnics, up from 953, and 2,677 students per institution among universities, up from 2,542. The combined finished square footage of regular universities and polytechnics increased 5,244,200 square meters. The finished area per student fell from 44.3 square meters in 1991 to 40.13 square meters last year (calculated in terms of student equivalent).

Judging from the results of the statistical survey, the state of higher education in 1992 was good. Not only has it grown in scale, but the mix of levels and mix of disciplines have also become rational. The proportions of self-financed students and sponsored students have gone up, as has the faculty:student ratio. Be that as it may, there also exist some problems we should note. Some localities, for example, increased their student intake too much too fast. Investment lagged even as

after-school educational institutions increased. Ignoring objective realities, a handful of localities increased enrollment thoughtlessly or in violation of the rules. Admission chaos resulted and large numbers of teachers were lured away.

## 2. Basic Education

In 1992 there were 712,973 elementary schools in China and the number of school-age children hit 21,832,000, 1.1 million more than a year ago. The enrollment rate of school-age children ages seven to 11 reached 97.95 percent, 0.11 percentage points higher than the previous year. The enrollment rate of girls was 96.98 percent, up 0.02 percentage points over a year ago. In 1992, 122,012,800 children were enrolled in elementary schools and 18,723,500 students graduated. Junior middle schools admitted 14,917,000 students (14,650,100 by regular junior middle schools, 530,000 more than last year, and 266,800 by vocational junior middle schools, almost 30,000 more), an increase of 565,400 pupils compared to the preceding year. The enrollment rate of school-age children ages 12 to 15 was 66.91 percent while the enrollment rate of girls in junior middle schools was 64.01 percent. In 1992, 41,222,900 children were enrolled in junior middle schools (40,659,100 in regular junior middle schools and 563,800 in vocational junior middle schools,) 1,093,100 more than a year ago. The proportion of elementary school graduates who moved on to junior middle schools reached 79.67 percent, up 1.96 percentage points over a year ago. The drop-out rate among regular junior middle school students was 5.78 percent, an increase of 0.32 percentage points over last year's 5.46 percent. In 1992 senior middle schools (not including technical schools) admitted 4,269,100 students in all, 103,300 more than a year ago. Regular senior middle schools admitted 2,347,300 students, 90,000 less than the 2,438,200 in 1991. In all 7,048,900 students were enrolled in junior middle schools and 2,261,300 students graduated.

The conditions in which elementary and middle schools operate were further improved. The finished square footage of all elementary and middle schools (including vocational middle schools) in the nation was 758,450,900 square meters, including 28,518,400 square meters in buildings completed last year. The proportion of dilapidated buildings dropped from 2.75 percent a year ago to 1.96 percent.

Teaching and administrative staff at junior and middle schools across the nation increased while the number of elementary school teachers fell. There were 4,112,600 teachers and staff members at regular middle schools nationwide, 58,100 more than a year ago, including 3,141,100 full-time teachers (2,565,000 in junior middle schools and 576,100 in senior middle schools) 51,100 more than a year ago. There was a slight increase of 5,500 in the teaching and administrative staff of elementary schools, to 6,199,000, despite a small drop in the number of full-time teachers, from 5,532,200 in 1991 to 5,526,500 last year, a decrease of 5,700.

Progress was made in preschool education. There were 172,500 kindergartens across the nation, 8,000 more than the preceding year, where 24,282,100 children were enrolled, 2,180,000 more than a year ago. Teaching and administrative staff at kindergartens numbered 1,121,400, an increase of almost 60,000 compared to 1991. The number of full-time teachers rose 46,000 to 815,000.

Special education made substantial progress. Nationwide the number of special education schools increased 191 to 1,077. They admitted 29,500 students in 1992, an increase of 9,700 compared to a year ago, and enrolled 129,500 students, up 44,500. Teaching and administrative staff at special education schools numbered 27,000, an increase of 4,000 over a year ago, including 18,500 full-time teachers, 2,500 more than a year ago.

## 3. Vocational and Technical Education

Vocational and technical education continued to develop and its share of senior secondary education continued to grow. In 1992 student intake by vocational and technical schools at the senior middle school level accounted for 53.8 percent of all students admitted by senior middle schools across the nation while enrollments in vocational and technical schools at the senior middle school level made up 49.2 percent of all students enrolled in senior middle schools. Specifically, vocational middle schools admitted 879,200 students (including 638,400 by technical middle schools and 240,800 by teachers' training middle schools) 99,300 more than a year ago, an increase of 12.72 percent. Students enrolled in vocational middle schools numbered 2,408,400 (1,742,800 technical middle schools and 665,600 in teachers' training middle schools) an increase of 5.75 percent over the preceding year, or 131,000. Technical schools admitted 601,800 students, 57,300 more than the preceding year, an increase of 10.52 percent; 1,556,000 students were enrolled, an increase of 133,900, or 9.4 percent, over a year ago. Vocational senior middle schools admitted 1,254,600 students, an increase of 114,600 compared to a year ago, or 10.05 percent, and enrolled 2,863,800 students, an increase of 231,600 students, or 8.8 percent. Vocational junior middle schools admitted 266,800 students, an increase of 28,600 students over 1991, or 12.01 percent, and enrolled 563,800 students, an increase of 40,500 students, or 7.74 percent.

There were changes in the choice of subject by students admitted to vocational middle schools in 1992. Finance and economics, engineering, agriculture, forestry, and art admitted a greater proportion of students, while teachers' training, medicine, politics and law, and physical education admitted a lesser proportion. The changes are presented below.

**Table 2. Vocational Middle Schools: Changes in Admission by Subject unit: %**

	1991	1992	Change
Engineering	24.28	25.11	0.83
Agriculture	6.26	6.59	+0.33
Forestry	1.10	1.12	+0.02
Medicine	12.15	12.01	-0.14
Finance and Economics	19.40	20.25	+0.85
Politics and Law	2.82	2.77	-0.05
Physical Education	1.28	1.27	-0.01
Art	1.78	1.82	+0.04
Others	1.00	1.17	+0.17
Teachers' Training	29.93	27.89	-2.04

There were changes in the choice of subject by students admitted to vocational senior middle schools. Finance and economics, medicine, and others each admitted a greater share of freshmen, while agriculture, forestry, politics and law, physical education, art, and teachers' training all admitted a lesser portion.

**Table 3. Vocational Senior Middle Schools: Changes in Admission by Subject unit: %**

	1991	1992	Change
Engineering	27.36	27.25	-0.11
Agriculture	20.33	16.96	-3.37
Forestry	4.08	3.07	-1.01
Medicine	4.81	5.81	+1.00
Finance and Economics	13.21	15.65	+2.44
Politics and Law	0.29	0.24	-0.05
Physical Education	0.47	0.45	-0.02
Art	3.23	3.20	-0.03
Others	22.68	23.84	+1.16
Teachers' Training	3.54	3.53	-0.01

Teaching and administrative staff at vocational secondary schools numbered 503,000, an increase of 9,100. There were 235,100 full-time teachers, an increase of 2,800 over a year ago. The number of full-time teachers at teachers' training secondary schools fell slightly, from 57,200 a year ago to 57,000.

Teaching and administrative staff at vocational middle schools numbered 376,300, an increase of 17,900. There were 24,800 full-time teachers, 13,300 more than a year ago.

#### 4. Adult Education

There were 1,198 institutions offering adult higher education. They admitted 591,700 students in all (including 35,700 admitted to general technical courses in adult

schools) an increase of 126,200 over a year ago, or 27.11 percent. Of the 591,700 students admitted, 55,500 pursued regular college courses while 536,100 entered technical classes. Altogether 1,478,700 students were enrolled in institutions of higher education for adults and 517,700 graduated.

**Table 4. Student Admissions by All Types of Institutions of Higher Education for Adults unit: 10,000 students**

	1991	1992	Change
Total	46.55	59.17	+12.62
Television University	8.63	11.61	+2.98
Institutions of Higher Education for Workers	8.65	8.46	-0.19
Institutions of Higher Education for Peasants	0.01	0.02	-0.01
Colleges for Cadres in Management	2.48	3	+0.54
Colleges of Education	6.03	7.65	+1.62
Independent Correspondence Schools	0.34	0.52	+0.18
Correspondence Departments of Institutions of Higher Education	13.22	17.46	+4.24
Evening Universities	4.82	6.23	+1.41
Special Courses for Cadres	0.47	0.64	+0.17
Regular Special Training Courses	1.903.57	+1.67	

We can see from the above table that among institutions of higher education for adults, the television university, correspondence classes, and evening universities experienced the most rapid growth in student intake, while institutions of higher education for workers admitted slightly fewer students.

Teaching and administrative staff at institutions of higher education for adults numbered 206,000, basically the same as last year, despite a drop in the number of full-time teachers from 89,200 a year ago to 88,900 in 1992.

There was a substantial increase in the number of students admitted by technical middle schools for adults, up 61,100, or 9.39 percent, to 713,100. Altogether 1,744,300 students were enrolled in technical middle schools for adults, 63,900 more than a year ago, and 486,600 students graduated. Of the various kinds of middle schools for adults, schools providing in-service training for teachers, correspondence technical middle schools, technical middle schools for peasants, and technical middle schools for cadres increased their student

intake in 1992 by 35,900, 24,900, 11,400, and 9,800 students, respectively, while television technical secondary schools and technical secondary schools for workers admitted 19,200 and 2,400 fewer students, respectively.

Technical training schools for adults continued to grow rapidly, admitting 45,418,000 students (5,853,100 students by technical training schools for workers and 39,565,300 by technical schools for peasants) 10,742,100 students more than last year, or 31 percent.

There was a corresponding reduction in continuing cultural schools for adults, with the number of adult middle schools dropping 660 to 6,071. In 1992, 53,990 students were admitted, 22,180 students fewer than the year before, and 688,200 students were enrolled, 210,500 fewer than the preceding year. In 1992 there were 45,639 adult elementary schools (excluding anti-illiteracy programs,) 654 more than the year ago. They admitted 2,434,000 students, 194,600 fewer than 1991, and enrolled 2,761,800 students, 145,200 fewer than the preceding year.

The achievements of the anti-illiteracy campaign continued to solidify. For the year as a whole, 5,233,100 people ceased to be illiterate. At present 5,527,100 people are taking part in anti-illiteracy studies. Teaching and administrative staff in anti-illiteracy education numbered 96,500, including 27,900 full-time teachers.

### Ten Major Changes in Social Psychology

93CM0251A Beijing ZHONGGUO SHEHUI BAO  
in Chinese 12 Mar 93 p 4

[Article by Xiao Rui (5135 3843): "Ten Major Changes That Have Occurred in China's Public Mindset"]

[Text] A poll conducted by the Society of Historical Materialism National Affairs Survey Work Committee, founded by the famous social scientist Mr. Zhang Youyu [1728 0645 3342], finds that reform and opening up have brought 10 major changes to China's public mindset.

1. The idea of devoting one's efforts to becoming wealthy has become widely accepted, with party and government cadres, intellectuals, the self-employed, and students all having a strong desire to become wealthy. Those who have not yet "dived into the sea of business" are thinking about it, while those who have are considering "swimming out further."
2. The public is somewhat more psychologically prepared to accept the external pressures brought by the development of a market economy. Some reform steps, such as price increases for grain, cooking oil, gas, meat, and eggs, certainly have not yet aroused the kind of social turbulence of the mid-1980s.
3. Because the market economy is providing the public with wider opportunities, the censure and nitpicking by those in the lower-income social stratum toward

those in the higher-income one is being gradually replaced by mutual competition. Intellectuals are learning to use their ingenuity to strive for better living conditions, and the social prestige of the self-employed is improving.

4. The "bureaucrat standard" has clearly weakened, with more than 80 percent of students upon graduation choosing to go to work for enterprises, companies, and economic entities, which is what dictates the public's economic mindset in the current age of business.
5. The incentive of higher income has given all party and government cadres and intellectuals a strong desire to take up second occupations, which some have already done, and which shows that the public demand to choose one's occupation is still leads the degree of social fulfillment.
6. The letdown over the crisis of belief is gone, with people striving feverishly for material profit.
7. The public has a much-enhanced understanding of resources, which is growing steadily. Talent, S&T, land, and information are all seen as key resources, any of which might bring a chance to get rich.
8. The tensions in public mentality are sharpening steadily, with a stronger awareness of the crisis of existence. Government functionaries in the "iron ricebowl" system are feeling a particular urgency about the great pressures brought by a market economy.
9. The public mindset has changed from fear of change to demand for it, and from emotion about reform to a more rational understanding of it.
10. Reform has a dual drive of democracy and efficiency, if it is necessary at any particular time to make a first choice, 65 percent of party and government cadres, 60 percent of intellectuals, and 50 percent of students believe that efficiency should come first, and that a developed economy should then be used to drive overall system reforms.

### First Private Primary School in Dalian

93CM0251B Beijing GUANGMING RIBAO in Chinese  
23 Mar 93 p 4

[Article by Song Yanrong (1345 6056 2837): "Jicai, Dalian's First Private Primary School, Sets Off a Lively Debate"]

[Text] This school is taking on the duty of compulsory education while charging high tuition. The Jicai School in Dalian, a private boarding school set up and wholly-funded by the Dalian Hongxiang Corp Ltd, has aroused the attention of all.

Dalian's Jicai School, established at the end of 1992, is aimed at educating the children of foreigners, overseas Chinese, and Hong Kong, Macao, and Taiwan businessmen in Dalian offices and agencies. And solving real difficulties for parents who want their children to develop their talents and are willing to pay high tuition to achieve this, but lack the time and energy to manage their children's education themselves. The school practices a principal responsibility system under the leadership of a board of directors. The chairman of the board is Sun Hongxiang [1327 3163 5046], the owner of a private enterprise, and the principal is Han Ling [7281 3781], an outstanding principal in Liaoning Province and a model worker in the national educational system. The school is temporarily renting space in the Civil Aviation Convalescent Home at Dalian's Fujiazhuang scenic area. The school has computers, pianos, and electronics classrooms. Student dormitories are equipped with ultraviolet lamps. The school has special buses to take teachers and students back and forth, as well as nurses, nutritionists, and security guards. In addition to a complete regular curriculum, the school also has educational classes in etiquette, computers, foreign languages, and specialized courses in drawing, calligraphy, and piano.

The school's funds came from an initial investment by the Hongxiang Corp to rent space and buy teaching and transportation equipment. Students pay enrollment tuition and fees of 15,000 yuan (plus extra for meals and uniforms), and 20,000-40,000 yuan into a school building fund (which is refunded if the student leaves the school). The school has a current enrollment of 82 students. A rough accounting shows that over 90 percent of parents are self-employed, private entrepreneurs, or employees of foreign-funded enterprises.

I found that while all public parties support the school's being funded and run by an entrepreneur, there is a lively debate over certain school-administration matters.

#### Is Charging Such High Tuition Reasonable

Its higher than normal tuition is the focus of the public debate over this private school.

Some public primary-school principals note that: The "Compulsory Education Law" provides that six-year-olds have the right to compulsory education, which the state provides free of charge. A private school charging 15,000 yuan tuition violates the compulsory education laws. If compulsory education is to be marketed, then the compulsory education laws need to be changed.

Others argue: While compulsory education has always been a state monopoly, the state cannot afford it, particularly boarding schools. So the emergence of private schools provides new backing for compulsory education. And paying for education benefits both the state and the people.

#### What Is the Harm in a Voluntary Commitment

As to tuition, the school's founder Sun Hongxiang notes: Education is also an industry. Running a school, like running a hotel or restaurant, can the charge be the same for five-star and one-star service? My buildings, equipment, and teachers are first-rate, the charge should also be top-dollar. Sun Hongxiang estimates that over and above costs, such as teacher salaries and student dormitories, he is certainly not making any money. He says that he has set up a school-run joint-venture factory with the Japanese Kangle Foods Corp Ltd to supplement his school administration-cost shortfall. But he also notes that the school's growth prospects show that he will be able to make it profitable.

But some comrades contend that education is a public institution that should not be aimed at profits, which is even less desirable at the compulsory-education level. They say that while it is reasonable for entrepreneurs to earn prestige from investing in education, it is not something that they should profit from.

On 24 February, at the Jicai School's tuition-payment office, I questioned some dozen parents, who generally commented that if the school met general enrollment regulations, the cost was reasonable and affordable.

But others remarked that while a few could afford such high tuition, the ability of the majority to accept this psychologically must also be taken into consideration. Too large gaps easily create a sense of unfairness.

#### Various Stands on Training Targets

The Jicai School's general enrollment regulations read: This school must train students according to the training targets set by the State Education Commission, to give students a solid foundation, a healthy mind and body, a good quality, and outstanding skills. But Board Chairman Sun Hongxiang explained it at a parent meeting as: "There are imperial aristocratic schools abroad, why cannot we run such a school here? We are going to link this up from grade school through college, to train superior talent. While I will absolutely not turn out ordinary people, for which parents would tear down my sign, I will also absolutely not turn out dandies or pampered young ladies either!"

Principal Han Ling's stand on this is certainly not flattering, she said: "I am absolutely not running a school for aristocrats. We named the school Jicai because we are turning out students of world-class talent." She goes on to say that: "I support entrepreneurs putting up money to run a school. But as I spent half of my life as a principal in public primary schools, I still need to gain actual experience in how to run a private one." Once the students entered the school, she started a remedial education class on "giving consideration to others, the collective, and the country." In a "self-appraisal" class, one first grade boy said that "I am going to make enough money to buy the whole world, so that all of the people in the world will be under my control." When Han Ling

heard such alarming talk, it strengthened her resolve to train and educate these children well. In response to the reporter's question: "As you were hired by the board of directors (at a salary of 1,000 to 1,500 yuan a month), what would you do if your teaching ideas were unacceptable?" Han Ling replied: "Because we are practicing a principal responsibility system, I have teaching sovereignty, so should speak out. If I could not run my school according to the right teaching ideas, I would quit!"

But other teaching professionals express doubt about putting so many children of the rich together, as well as about whether it contributes to their healthy physical and mental development.

#### **A New Challenge Facing Public-School Teachers**

The Jicai's School's teachers are socially-oriented and openly-hired at monthly salaries starting at 600 yuan and going up to 1,000 yuan. Most of the 200 applicants were

teachers in primary and middle schools. The school's requirement for young teachers is that they must have attended top municipal or district public schools. Most of the 10 young teachers who were tested and hired were top students or key teachers at Dalian's best-known schools.

In light of the attractive salaries at this private school, some are concerned that this will present a new challenge to the already unstable public-school teaching ranks. But others note that such mobility and challenge within the teaching ranks is a good thing. If teachers can take advantage of their abilities to get into a private school where they can display their talents, they ought to be praised for it. While a private school pays better, it has greater risks and pressures. If teachers do not perform well one year, they face the danger of being fired the next; the sense of risk and pressure are exactly what some public schools lack.

### **Yunlin Free Trade Zone Outlined**

93CE0487A Hong Kong CHING-CHI TAO-PAO  
[ECONOMIC REPORTER] in Chinese No 14,  
12 Apr 93 p 29

[Article by Chang I: "Taiwan Also Develops Free Trade Zone"]

[Text] Right now, Taiwan's "Industrial Development Bureau of the Ministry of Economic Affairs" has affirmed the "Plan of Readjustment, Development and Utilization of Yunlin Offshore Industrial Area" and decided to change the original comprehensive industrial area into a free trade zone, and set up a 2,000 hectare free trade zone in the Yunlin industrial area. The "Industrial Development Bureau" has started to study and work out a "plan for readjustment, development and utilization." This will be Taiwan's first free trade zone.

### **Work Out Most Up-to-date Plan**

According to the plan most recently worked out by the "Industrial Development Bureau," the future Yunlin Offshore Industrial Area will comprise five major districts. In the order from north to the south, they are the Mailiao, Haifeng, Hsinhsing, Ssuhu and Kouhu districts. They will be used in the following order: the Sixth Naphtha Cracking Plant, extension for the Sixth Naphtha Cracking Plant, iron and steel production and power-generation facilities, free trade zone and petrochemical heavy industry. Communications facilities and townships will be built around the five major zones according to actual needs. An international deep-water harbor will be built according to plan between the Ssuhu and Kouhu districts, which is between the free trade zone and the district for the petrochemical heavy industry. Also in the coastal area outside the Kouhu district, that is, the coastal area outside the petrochemical heavy industrial district, a land fill project, and an international airport will be developed. It is estimated that the development of the free trade zone will be completed by the end of 1997.

According to Wang Chueh-min, director general of the "Industrial Development Bureau of the Ministry of Economic Affairs," the "Industrial Development Bureau" will soon submit a feasibility report to the "Ministry of Economic Affairs" and negotiate with a professional consulting firm to work out the plan.

### **Start To Draft Regulations for Establishment, Administration**

To coordinate with the development of the free trade zone, the "Industrial Development Bureau" decided to draft the "Regulations for Establishment and Administration of Free Trade Zone." Wang Chueh-min said, due to the lack of experience in setting up a free trade zone in Taiwan, the "Industrial Development Bureau" will formulate these regulations with reference to the ways foreign free trade zones were set up and in coordination with Taiwan's past experience in developing its export

processing districts and according to world trends. In these regulations, the bureau will explicitly stipulate how to establish, develop and administer this free trade zone and all the relevant measures for coordination among all the departments concerned. In principle, the development and administration of the free trade should mainly be in private hands.

The general response to the concept of the Yunlin Free Trade Zone in Taiwan is fairly good. People believe that this concept is creative and constructive, and that it should be regarded as affirmative.

Public opinion in Taiwan believes that the completion of the Yunlin trade zone will provide Taiwan with a large free trade zone with perfect harbor, communications, storage, transportation, and manufacturing facilities and services. Due to the large amount of funds needed to develop this zone, it will help increase the amount of investment in Taiwan. In the future, many advantages of the free trade zone will attract entrepreneurs from Hong Kong and other countries throughout the world to make investment and build factories there. It will play a significant role in helping Taiwan develop its economy and increase its international prestige.

After its completion, the Yunlin Free Trade Zone may attract a large amount of funds, many enterprises, and offer many employment opportunities. Undoubtedly this will greatly help promote Yunlin's local economy. It is said that Yunlin is actually a poor county, industry and commerce are undeveloped, and public construction projects are few. It is unattractive to investors. For the past decade, Yunlin's national income ranked within the last three in Taiwan. Over the past 10 years, many people fled the county. After the completion of the free trade zone in Yunlin, there will be all types of employment opportunities. This will help develop the local economy in a balanced way.

### **People's Worries**

While regarding the establishment of the Yunlin Free Trade zone as positive, the people in Taiwan are also worried that right now, the various nations in Asia have already set up all types of export processing districts, free trade zones, bonded areas and technical development districts. However, Taiwan has just started now. It is somewhat late to begin. It will not be easy for Taiwan's free trade zone to defeat many of its competitors and attract foreign business people to the zone. KUNG-SHANG SHIH-PAO in Taiwan points out: The mortal wound of the Yunlin Free Trade Zone is its late start. It is too late to link up with Hong Kong after 1997, while it is also pounded by development in Shanghai's Putung. If the future prospects of the Yunlin Free Trade Zone is not definite, private investors will naturally hesitate to step forward. The government will also hesitate to make more investment under censure from various quarters.

Meanwhile, located in the central region on the east side of the Taiwan Strait, Yunlin's coastal area is subject to the attack of strong winds the whole year round. On the

other hand, there also exist many problems in terms of environment and ecology. For example, extensive land fill projects will create ecological changes along the coast, and the construction of breakwaters and seawall may cause serious floods. This will affect investor's confidence.

Taiwan's first free trade zone will be under construction soon. It is said that the existing three export processing districts will possibly be changed into free trade zones and that these trade zones will be mainly developed and

administered by private sectors. In general, this concept has won the support of the public. However, public opinion holds that some public construction projects such as harbor, highway construction, and land fills should be carried out by the government. The private sector may not have such a powerful financial resource.

Taiwan authorities seem to have full confidence in developing Yunlin into Taiwan's largest cosmopolitan city. However, it will be difficult to turn this ideal into reality if the aforementioned problems are not solved.



### Newly Appointed Hong Kong Affairs Advisors Listed

93CM0255A Hong Kong MING PAO in Chinese  
30 Mar 93 p 2

[Text] At about 1900, the Chinese government officially issued the second name list of 49 Hong Kong Affairs advisors. Counting the 43 people on the first list, there are altogether 92 Hong Kong Affairs advisors, including nearly all of the wealthiest Chinese capitalists. However, none of the British, American or other foreign investors were appointed, nor were any members from Democratic parties. Mr. Zhou Nan, head of XINHUA, Hong Kong Branch, stressed that "love China, love Hong Kong" was an important criteria in choosing these advisors.

Advisors on last night's list are jointly employed by the Hong Kong and Macao Affairs Office of the State Council and XINHUA, Hong Kong Branch, with the same two year term as those on the first list appointed last March.

Among these new Hong Kong Affairs advisors, 13 are from business circles. Cheng Yu-tung, Li Chao-chi, Kuo Bin-hsiang, Wu Kuang-cheng, as well as advisors appointed last year such as Li Chia-Ch'eng, Hao Ying-tung, Shao Yi-fu and Tung Chien-hua, already comprising eight of the 10 top capitalists in Hong Kong. In addition, Lin Pai-hsing, Kuo He-nien from Malasia and Hsieh Kuo-ming from Thailand are also very near to these Hong Kong "top 10" capitalists.

Although the Chinese government emphasized that advisors are employed on individual case, in fact they managed to appoint almost all of the major Chinese players in Hong Kong business, while excluding British and American financial groups, which are vital to Hong Kong's economy.

Among the newly appointed advisors, five are currently representatives in the Legislative Council, one is a former representative in the Executive Council, (Hsieh Chih-wei); and 17 have a political background. Taking advisors on the first list into consideration, almost all of the influential pro-Beijing political figures in Hong Kong, or those having good relations with the Chinese government are included, while Democratic representatives directly appointed by the Legislative Council as well as nonparty affiliated representatives are left out of this organization, which communicates directly with the Chinese government.

Last night in Beijing, Zhou Nan, when questioned by reporters as to why no democratic representatives were appointed, stated that Hong Kong Affairs advisors cannot possibly include everyone; the important criteria for choosing is that advisors "love China love Hong Kong." He also added that there will be a third list of Hong Kong advisors.

The assistant chief of XINHUA, Hong Kong Branch, Li Wei-ting said that the future group of advisors will include political party members. As for moderate Democratic party members such as the Association for Democracy and People's Livelihood and the Meeting Point, may be included in the third and fourth appointment of advisors.

The Chinese government will hold an official ceremony to issue contracts this Friday in Beijing. The ceremony will be hosted by the director of the Hong Kong and Macao Affairs Office, Lu Ping, and chief of XINHUA Hong Kong Branch, Zhou Nan, with state leaders in attendance.

In addition, last years's list of advisors will also be in Beijing to attend the ceremony and following forum on Friday and Saturday.

Second List of 49 Advisors

Field	Name	Primary Position	Age
Business and Industry	Lin Pai-hsin	President of Li Hsin Group	80
	Tsao Kuang-piao	Chairman of the Board, Wingson Ind. Ltd. Co.	73
	Cheng Yu-tung	Chairman of the Board, New World Development Co. Ltd	71
	Hsia Li-lai**	President of Shangri-La Group	71
	Chiang Cheng	Chairman of the Board, Cheng Hsiong Machinery Group	70
	Kuo He-nien	Chairman of the Board, Chia Li Trading Co. Ltd	69
	Kuo Ping-hsiang	Chairman of the Board, New Hung Chi Real Estate Development Co.	44
	Li Chao-chi	Chairman of the Board, Heng Chi Chao Ye Co. Ltd.	64
	Hu Chin-chang	Vice Chairman of the Board, Chin Yin Trading Co.	42
	Kao Chih-chuan	Director of the Board, Yung An Group	55
	Li Ye-kuang	Chairman of Social Connection Co.	57
	Hsieh Kuo-ming	Chairman of the Board, Chen Ta Group	60
Professional	Liu Han-chuan	Chief of Lawyers Committee	46
	Huang Ching-chiang	Engineer	48

## Second List of 49 Advisors (Continued)

Field	Name	Primary Position	Age
	Wei Chia-hsuan	Lawyer	40
Academic	Kao Kun	President of Chinese University	60
	Wu Chia-wei	President of Technology University	56
	Chang Yu-chi	Assistant Dean of Hong Kong University	59
	Hsieh Chih-wei	President of Ching Hui College	59
	Huang Liang-hui	Senior Lecturer at Hong Kong University	54
	Wu Ching-hui	President of Ching Hui College, School of Science	53
	Liu Chao-chia	Asst. Dean of Hong Kong Chinese University, Asian-Pacific Institute	46
	Li Ming-kun	Head Lecturer, Science and Technology College, Department of Sociology	45
	Huang Shao-lun	Dean, Hong Kong University Sociology Department	45
	Chen Yao-hua	Professor Emeritus, Chinese University, Department of Physics	69
	Huang Yue-han	Chief, International Affairs Institute	56
Legislative Bureau Representatives	*Li Peng-fei	President of Medilla International	53
	*Chang Kan-chuan	President of Industrial Committee	52
	*Pan Kuo-chian	Chairman, Hong Kong Chin Shih Industrial Co. Ltd.	50
	*Ni Hsiao Chieh	Vice Chairman, Chinese Industrial Co. Association	69
Municipal Chairmen	*Chang Ren-lung	Chairman, New Territory General Business Association	70
	*Liang Ting-pang	Chairman of the Board, Kuang An Bank	59
Retired State Employees	Chung Yi-chieh**	Former Administrative Bureau Official	65
	Cheng Hua-suo	Former Director of Education Bureau	63
	*Wang Ying-wei	Former Vice Director of Industry Bureau, now Vice President of Administration of Chia Hua Group	41
Hong Kong People's Congress and Consultative Conference	*Cheng Yung-chi	Congress, Chairman of Hong Kong Exporter's Association	46
	Liang Ai-shih (female)	Congress, Lawyer	46
	Lia Ta-sheng	Congress, Chairman of New Territory Socialist Party Association	56
	Tseng Yu-cheng	Consultative Conference, Principal of Pei Chiao Middle School	46
	Chen Wen-chiu	Consultative Conference, Accountant	57
	Ruan Pai-yao	Consultative Conference, Lawyer	57
	Wu Shu-cheng (Female)	Consultative Conference, President of Hong Kong World Trade Center	45
Other	Cheng Wan-hsien	Vice Secretary of Industry Association	47
	Han Rei-Pei	Chairman of Guan Tang People's Association	67
	Shao Shan-po	General Secretary of "One Country, Two Systems" Economic Research Center	44
	Ma Li	Chief Editor of Hong Kong Business Daily	41
	Yang Yao-chung	Principal of Hsiang Tao Middle School	42

Note: Except in the Business and Industry field, all names with asterisks \* have a business background. Those names indicated with \*\* are foreigners.

### **Perspective on Future Guangdong Cooperation**

93CE0459A Hong Kong TANG TAI  
[CONTEMPORARY] in Chinese No 24,  
15 Mar 93 pp 76-78

[Article by Wang Chien (3769 0256): "Perspective on Hong Kong-Guangdong Cooperation Over the Next 10 Years"]

[Text] Guangdong is one of China's provinces with the fastest economic growth. Hong Kong is located on the southern door to Guangdong, and the economic and trade relationship of the two areas certainly has considerable potential for growth over the next 10 years. Therefore, to break new ground in terms of economic and trade cooperation with China, an in-depth understanding of Guangdong's economic development program is required.

At the just concluded Guangdong provincial people's congress, the delegates approved a 20-year development program starting in 1993. Let us review the program:

#### **Economic Goals in 1993**

The important goals in developing Guangdong's economy and society in 1993 are:

GDP will be 231 billion yuan, a 12 percent increase, with the tertiary industry growing at 15 percent. By the end of the next 20 years, the tertiary industry will account for 64 percent of Guangdong's output value.

Gross value of industrial output value will be 380.6 billion yuan, an 18 percent increase.

Gross value of agricultural output will be 70 billion yuan, a 6 percent increase.

The total commercial retail sale value will be 121.8 billion yuan, a 15 percent increase, with the retail price increases kept within the 10 percent range.

The total export trade value will be \$18.1 billion, an increase of 27 percent over the 1992 plan, and foreign capital use will reach \$5.3 billion.

Revenues will total 23.4071 billion yuan, an increase of 10 percent based on comparable items.

Fixed asset investments will total 80 billion yuan, an increase of 18.5 percent.

The interest rate on capital for industries and enterprises with independent accounting will increase from 10.7 percent to 11.3 percent, the production and marketing ratio will reach 95 percent, the number of unprofitable enterprises will decline by 10 percent, and overall labor productivity will increase by 12 percent.

#### **Economic Goals in Next 20 Years**

Let us review the important salient aspects of Guangdong's development program in the next 20 years:

With the goal of establishing a socialist market economic system, we will further liberate and develop productive capacities, and accelerate the growth of a market system.

We will devote major efforts to building infrastructure projects in energy, transportation, communications, water conservancy etc. In the energy area, during the 20 year period, we will build new electric generators with a total capacity of 72 million kilowatts. In the transportation area, we will construct 52,000 km of new highways, 2,200 km of new railroads, and additional harbor handling capacity of 506 million tons. In the area of telecommunications, we will increase the village and town telephone system switching capacity to handle 38.2 million phones, bringing the telephone availability rate to 45 percent in the towns and villages, and increase the long distance switching capacity to handle 1.16 million phones with 660,000 long distance lines. In water conservancy, in addition to implementing current targets for water conservancy facilities, we will construct new large-scale projects for flood prevention, electricity generation, and energy supply.

We will develop certain leading industries on a large scale and bring them to the next higher level. While continuing to develop the export-oriented, light-industry model, we will speed up overall industrial development by focussing on the polyethylene sector in the petroleum chemical industry, on the automobile repair sector in the automobile manufacturing industry, on electronics industry based on large-scale integrated circuits, on iron and steel in the metallurgical industry, and on enterprises which specialize in using advanced techniques and new materials in the construction materials industry.

We will quicken the pace of opening to the outside world, and establish a diversified, open market system. We will concretely pursue development of overseas enterprises and enlarging the international marketing network. We will establish enterprise groups that measure up to international standards, and possessing considerable competitive capabilities; and we will further improve the investment climate from both the hardware and software standpoints. In export trade, we will maintain stable growth with an annual rate of over 14 percent. In the 20 year period, we will strive to use \$190 billion of foreign capital.

We will strive to readjust and improve the enterprise structure. In the next 20 years, we will firmly proceed in the direction of "elevating the primary industry, improving the secondary industry, and greatly developing the tertiary industry," and change the ratio of the three sectors in GDP from 26-40-34 in 1990 to 5-31-64.

We will conscientiously seek to shift the economic focus to emphasize reliance on scientific and technological progress and on improving the quality of the work force. By increasing the S&T input, we will carry out economic development with the special Guangdong characteristic of reliance on science and technology. By the year 2010, it is anticipated that over 50 percent of the province's

economic growth will be driven by Guangdong's scientific and technological progress; that labor productivity will increase annually by 10 percent, and that the rate of return on fixed asset investments will reach 45 percent.

We will set up a sound system for raising and transferring capital and maintaining a relatively high rate of investment. We will attract direct capital investment, expand the market for negotiable securities and debentures to attract more foreign capital and speed up the raising of capital. At the same time, we will accelerate the turn around of capital to increase its use, and to support the rapid and coordinated development of the national economy.

#### Medium-Term Plan in Next 10 Years

Over the next 10 years, the development program will include the following types of projects:

**Development of Electric Power.** The Eighth Five-Year Plan calls for developing and putting into operation electric generators with a total capacity of 6 million kilowatts; that goal is revised to provide a total capacity of 11.24 million kilowatts, and to build new generators with a total capacity of 19.52 million kilowatts. In the Ninth Five-Year Plan, the generators' total capacity will be increased to 14.53 million kilowatts, and by the year 2000, the total capacity will reach 34.05 million kilowatts.

**Transportation Development.** In railway, the dual-track Li-Zhen Line will be rebuilt, with the following segments to be built during the Eighth Five-Year Plan: the Guangdong segment of the Beijing-Shenzhen-Kowloon Line, the Guang-Zhu segment, the Chunwan-Luoding segment, and the Chenjiang-Aotou segment. In the Ninth Five-Year Plan, we will complete the Guangdong segment of the Beijing-Shenzhen-Kowloon line, and begin new railway construction from Meizhou to Longyan, from Maoming east to Haian, from Yangchun to Yangjiang, etc. In highway construction, the Eighth Five-Year Plan calls for building about 5,000 km of new highways, and the program revises that figure to 7,736 km. Of this, 700 km will be new superhighways, 1,022 km of first class highways, and 2,700 km of second-class highways. The Ninth Five-Year Plan calls for constructing 1,081 km of new superhighways, and 3,774 km of first and second class highways. In water transportation, the Eighth Five-Year Plan calls for building 65 berths in coastal harbors, of which 28 will have a capacity of 10,000 tons each, and increasing the overall handling capacity to 34.86 million tons. The new program proposes to build 184 berths in coastal harbors, of which 59 will have a capacity of 10,000 tons each, and increasing the overall handling capacity to 100 million tons. In the Ninth Five-Year Plan period, 178 new berths will be built increasing the overall handling capacity to 102 million tons.

**Telecommunications.** The following projects in the Eighth Five-Year Plan will be revised as follows: The town and village telephone switching system capacity will be increased from handling 1.35 million to handling

4.2 million phones, increasing the telephone availability rate for the whole province from 4.5 to 8 percent; construction of new microwave lines increasing from 1,642 km to 3,000 km, and fiber-optic communications lines from 662 to 3,800 km. In the Ninth Five-Year Plan period, the town and village telephone system switching capacity will be increased to handle 8 million phones, increasing telephone availability rate by 17 percent.

We will concretely explore the international market and expand the scope of external economic cooperation. The projected total export trade value in 1995 is revised to \$43 billion. During the Eighth Five-Year Plan period, the annual rate of increase will be 18 percent. By the end of the Ninth Five-Year Plan, the total export trade value will be \$90 billion, with an annual rate of increase of 17.1 percent during the five-year period. In the Eighth Five-Year Plan, \$22 billion of foreign capital will be used, an increase of \$11 billion over the original projection. In the Ninth Five-Year Plan, \$48 billion of foreign capital will be used.

#### Opportunities for Hong Kong-Guangdong Cooperation

The above-mentioned development categories provide Hong Kong and overseas investors elsewhere with considerable investment opportunities, particularly in the tertiary industries. In Guangdong Province, the growth rate of tertiary industry will be faster than that of other provinces, which will provide Hong Kong with a huge market in tertiary industries.

Although development of the above-mentioned large-scale projects in highway, transportation, transport and communications will likely be monopolized by the government or major financial groups, Guangdong will nevertheless provide investment or cooperation opportunities for Hong Kong in certain high tech areas (e.g. the electronics industry) as Guangdong advances to the next stage of industrialization. As a matter of fact, Hong Kong's electronics industry production has continuously shifted northward in recent years.

Besides, many of Guangdong's developmental projects cannot be carried out without financial services, for the lack of financial backing will certainly affect the rate of development. In this respect, Hong Kong can be of considerable assistance.

In fact, Guangdong Province has recommended that all levels of government should strengthen and expand the scope and structure, and elevate the stages of opening to the outside on a province-wide basis. In the special economic zones and coastal open cities that are leading the opening to the outside, we will further expand their role as "windows" and develop their catalytic functions to accelerate economic internationalization and modernization. In the interior and mountainous areas, we should further quicken the pace of opening to the outside, particularly in the new economic technological developmental zones and coastal economic open zones established with approval of the central and provincial

governments, we should strive to improve the investment environment, link foreign contacts to internal needs, and raise the export-oriented economic standard. We should make further progress to strengthen economic and technological cooperations and exchanges in the Guangdong-Hong Kong-Macao area and strive to achieve even greater results.

It is the hope of all concerned parties that we will be able to attract Hong Kong and Macao capital, and channel it to areas outside of the Zhujiang Delta area to also include the mountainous area in Guangdong Province.

Guangdong Province will further expand foreign trade, intensify reform of the foreign trading system, change provincial-level government-operated commercial departments into enterprise groups, and concretely encourage state-owned foreign trade enterprises to develop as group enterprises, and as industrial, diversified and international operations. We should authorize production enterprises with export capability to export, encourage different industries and trades as well as enterprises with different forms of ownership to enter the international market and participate in international exchanges and gradually to eliminate the man-made distinction of domestic versus foreign trade enterprises. In developing the diversified international market, we will seek new breakthroughs and strengthen as well as expand the traditional markets of Hong Kong-Macao, U.S. and Europe, and give emphasis to expanding the markets in Japan, Latin America and Southeast Asia.

To assist Guangdong Province to move toward an international direction, Hong Kong can play its role and derive profit in the process.

#### **Impact of Renminbi Depreciation Assessed**

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[Article: "How Devaluation of the Renminbi Will Affect Hong Kong Companies"]

[Text] There will be "both the joyful and the sorry" among individual Hong Kong companies, in the wake of the recent large decline in the unofficial value of the renminbi [rmb]. In general, whether a business wins or loses depends on two factors: first, whether or not its raw materials come from the Chinese mainland; and second, whether or not its market is on the Chinese mainland. Below, based on these two factors, we will analyze the gains and losses of some Hong Kong companies. The big winners are those that buy raw materials and labor on the mainland, and then sell products in overseas markets. The big losers are the people who purchase products overseas, and then take them to the mainland to sell. For people whose raw materials and labor both come from the mainland, and whose main market is also on the mainland, there will be neither loss nor gain. This is the general situation. The specifics depend on the "mainland/nonmainland" ratio at each company.

#### **Manufacturing**

The main winners are manufacturers that produce on the mainland, such as those in the electronic and machinery manufacturing industries. Their expenses are in rmb, but their products are sold in hard currency areas. The rmb devaluation will cause these manufacturers to be even more active in developing sources of raw materials in the interior, especially those in the parts and components, toys, and television industries. But rmb devaluation has no clear-cut advantages for certain firms that produce relatively high technology products, such as cordless telephones, because a considerable portion of their parts must be obtained in markets outside the mainland. Those firms that must obtain a large portion of their raw materials from overseas, and then sell the products on the mainland, may suffer losses from the rmb devaluation. To prevent the devaluation from leading to a decline in profits, they may be forced to raise prices. But this will affect demand, and ultimately sales volume.

#### **Real Estate and Investment in Basic Construction**

The total value of land reserves in the interior, held by Hong Kong real estate companies, could decline because of the devaluation. Its impact on a Hong Kong real estate company, will be directly related to the proportion of the company's total assets held in land reserves on the mainland. But at present, except for a few companies that specialize in mainland real estate, the inland land reserves of Hong Kong real estate companies amount to only a small portion of their total assets in Hong Kong. Therefore, generally speaking, this devaluation will not have a great impact on real estate companies. Many developers working on the mainland, have long since sold and liquidated their buildings, so the rmb devaluation will have no great impact on them. But as for the "Kuangtung Investment Company," there will definitely be an impact, because a good part of its business is in housing sales in the interior, and its profitability will be affected.

As for companies that have projects in basic construction on the mainland, such as "He He," their future profits might indeed be affected by the devaluation (depending on whether individual contracts have clauses that guarantee profits). However, it is believed that these losses will be offset, to a large extent, by corresponding reductions in engineering and materials costs.

#### **Retailing**

The biggest losers will be retailers who buy products in hard-money countries, and then sell them on the mainland. They may have to pass on the losses by raising prices (which will affect sales), or else they will have to absorb the losses. Their only consolation is that this year, China has promised to greatly reduce import duties, and this could partly offset the impact of devaluation. Within the retailing industry, fast food restaurants could be winners, because they buy raw materials, process them, and then ship them to Hong Kong for sale. In this way, they pocket the price differentials caused by devaluation.

Table 1: Effect of RMB Devaluation on Hong Kong Companies

Market					
Losers					
Source of Raw Material	No Loss or Gain	Operating Mainly in the Mainland Market		Operating Mainly in the Foreign Market	
		From the Mainland	Toys	Electronics	Food Industry
			Ta Chia Le	K'ai Ta Toys	Chang Cheng
			Ta K'uai Huo	Nan Hua Industries	Han Hua
			Pa Pai Chien	Harbour Ring	
				Guanghua	
			Retailing and Industry	Timepieces	Tomei
			Tso Tan Nu	Yachou Commercial	
			Lu Shih Industries	Le Sheng Electronics	Textiles
			La Saunda		E Yu Hsu
				Computers	Fountain Set
				ASM Pacific	Topform
				Hai Yang Information	
				Process Automation	
				Vantcomix	
		Partly From the Mainland	Yung An	Chen Hsong	Novel
			Ti Sheng	Fong's	
		Partly From Overseas	Hsien Shih		
			Chin Li Lai		
			Innovisions		
	Losers	From Overseas	Ho Chi Hang	Textiles	
			Ta Mao Hang	Li Hsin International	
				Winsor	
			MC Packaging		
			Pa Pai Chien Foods		
			Kuan Chun		

Source: A Security Firm Research Department

**Table 2: Estimate of the Amount of Business Done in RMB by Some Hong Kong Firms  
(To Calculate the Degree of Impact of RMB Devaluation)**

Industry	Company	Portion of Total Business Done in RMB (Percent)		
		Percent of Income	Percent of Expenses	Percent of Assets
Manufacturing	Kuan Chun	25	5	
	Chin Feng	15-20	10-12	
	Hong Kong Toys	0	10	
	Chuang Sheng	0	20	
	Nan Shun Foods	5	15	
	Lu Shih	50-75	75	
	MC Packaging	5	15	
	Pa Pai Chien Foods	25	15	
Real Estate	He He	10		10
	Kuangtung Investment	72		63
Retailing	Ta Chia Le	20	20	
	Ta K'uai Huo	20-25	20	
	Pa Pai Chien	20	20	
	Ti Sheng Concepts	20	20	
	Tso Tan Nu	20	20-50	
	Chin Li Lai	50-75	20	
	La Saunda	20	20-50	
	Yong An	20	20	
	He Chi Hang	20	20	

Source: A Securities Firm Research Department